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# China Report

ECONOMIC AFFAIRS

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4 September 1985

## CHINA REPORT

### ECONOMIC AFFAIRS

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PROVINCIAL AFFAIRS

STATE COUNCIL APPROVES DALIAN'S ECONOMIC REFORM PLAN

Beijing RENMIN RIBAO in Chinese 5 Jul 85 p 2

[Report by Xinhua News Agency: "State Council Approves Dalian City's Program To Carry Out Comprehensive Reform of Economic System"]

[Text] The State Council recently approved "A Report on the Program To Carry Out Comprehensive Reform of the Economic System in Dalian City" by the People's Government of Dalian City and asked the People's Government of Liaoning Province and departments concerned under the State Council to implement the program and lose no time to advance the comprehensive reform of Dalian's economic system.

In a circular to transmit the above-mentioned report by the People's Government of Dalian City, the General Affairs Office of the State Council pointed out: Dalian is an important seaport and economic hub with superiority in industry, foreign trade, science and technology and tourism on the country's coast, and it is of great significance for vigorous development of the economy in Northeast China to successfully carry out the reform of the economic system in Dalian City.

The report suggests that the strategic emphasis and goal of Dalian's economic development is: Relying on the vast hinterland of the three northeastern provinces and eastern Inner Mongolia and closely linking itself with the group of cities near Shenyang, Dalian will bring the superiority of its seaport into full play, and develop marine, aviation, railway and highway transportation and foreign trade; it will make full use of the existing economic and technological base, vigorously engage in technology transfer, transform traditional industries, and exploit knowledge- and technology-intensive industries; it will make full use of its superior geographical conditions to actively initiate economic and technological development zones and establish new bases for vigorous economic development as well as to rapidly develop tertiary industries; by doing so it will make new contributions to the realization of the strategic goal of quadrupling the gross industrial and agricultural output value by the end of the century, to the building of a prosperous South Liaoning Economic Zone, to the vigorous economic development of Northeast China, and to the promotion of China's "four modernizations."

The report points out that, in carrying out the comprehensive reform of Dalian's economic system, the "Decision by the Central Committee of the Chinese Communist Party on Economic System Reform" must be conscientiously implemented; centering on the above-mentioned strategic goals of economic development and under the condition that socialist public ownership and planned commodity economy are maintained, the key link of reenergizing enterprises' vitality must be tightly grasped and a socialist economic system with Chinese characteristics and full of vigour and energy will be gradually built up. This means a kind of development-model system that can promote economic development and technological progress, a kind of open-model system that has relatively strong adaptability to domestic and international markets and is very resilient, and a kind of network-model system that has relatively strong influence, attractiveness and comprehensive service capabilities.

The report proposes that Dalian City maintain the following orientation in the reform: 1) Break up horizontal and vertical barriers; develop horizontal economic relations and technological cooperation between enterprises, industries and regions in accordance with the internal economic relations; let cities rationally organize production and circulation; secure success in reorganization and combination and coordination among specialized departments; gradually set up economic networks that combine horizontal with vertical relations, cities with countryside and "frontline" with "hinterland;" and give large cities full play to trade, finance, science and education as well as information.

2) Break up internal and external isolation and obstruction and carry out the open-door policy both internally and externally in a more active manner; gradually set up an open-model economic structure that "brings in technology from outside and makes connections inside" and a system that absorbs, digests, improves and transfers advanced technology and management experience from abroad; and give better play to the city's role as the "frontline" and "window" of Liaoning and Northeast China.

3) Break up the state's monopoly and develop diversified economic forms and management patterns so that the state-owned, collective and individual economies can all develop in coordination on a multi-level basis.

4) Break up the two "big cauldrons" and correctly handle the relationship between state and enterprises, and between enterprises and employees, and closely combine enterprise and individual economic benefits with economic results of those enterprises as well as employees' contributions, and truly carry out the socialist principle of "to each according to his work."

5) Break up the old practice of merging government administration and enterprise management. Starting off from streamlining government and handing down power as well as enlarging enterprises' self-management power on the municipal level, centering on strengthening enterprises' vitality; separate government responsibilities from those of enterprises by first changing their functions and then their structures, and explore new approaches to fully exploiting coastal cities' role as economic and governmental centers.

In the report, the People's Government of Dalian City put forward 11 key points concerning the reform, including: under the guidance of the Liaoning provincial government, the city enjoys independent planning and provincial-level jurisdiction over its economic management. With success in the port construction and management system, enlarge the seaport's jurisdiction over foreign trade, reform foreign economic relations and the trade system and loosen up policies, and speed up old enterprises' technological transformation.

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CSO: 4006/829

PROVINCIAL AFFAIRS

ECONOMIC COOPERATION THRIVING IN SHANGHAI ECONOMIC ZONE

Beijing RENMIN RIBAO in Chinese 24 Jul 85 p 2

[Article by Zhang Shihong [4545 0013 7703]: "Horizontal Connection Network Takes Shape in the Shanghai Economic Zone: Diversified Economic Cooperation Develops in Depth"]

[Text] Since it was extended to cover the four provinces of Jiangsu, Zhejiang, Anhui and Jiangxi last December, the Shanghai Economic Zone has seen in-depth development of diversified economic cooperation on multiple levels, between the four provinces and Shanghai Municipality, between industries, and between enterprises, and a preliminary horizontal economic network is taking shape. The Zone has obtained initial success.

The leaders of the four provinces and Shanghai Municipality are very enthusiastic about the Shanghai Economic Zone. They have officially set up the provincial governors and municipal mayor conference system and regularly have direct dialogues. At the first meeting in Nanjing, the leaders discussed major issues concerning the construction of the economic zone. Under the guidance of the planning office of the Shanghai Economic Zone, the four provinces and Shanghai set up more than 20 joint conference systems in different industries and established various information networks in such areas as statistics, investment, science and technology, and finance. For instance, the banks of the four provinces and Shanghai not only have begun establishing contacts, but also lend money to each other. The Shanghai branch of the Construction Bank has lent 90 million yuan to the four provinces. Joint foreign trade and talent exchanges are also underway.

Due to the great attention devoted to the Zone by the leaders and promotion by the planning office of the Shanghai Economic Zone, various forms of economic cooperation are developing in depth: from pure material exchange and processing cooperation to joint exploitation of resources and joint production; from ordinary technological exchange to transfer of scientific and technological achievements and systematic technological exploitation. Shanghai made an investment of more than 10 million to jointly open up tin, lead and zinc mines in Jiangxi; Zhejiang provided more than 80 million yuan to open up the Huaibei Coal Mine and Xuanhua Coal Mine in Anhui. At present, the four provinces and Shanghai have reached agreement on 21 joint ventures. Shanghai's famous brands and traditional products are going into the four provinces:

besides bicycles and sewing machines, 14 other factories of the Shanghai Light Machinery Corp have started joint production with 16 factories in Wuxi, Wujin and Shazhou of Jiangsu Province; the Shanghai No 2 Watch Plant has started joint producing "Diamond Flower" brand watches with the Hefei Watch Factory; the Shanghai Cigarette Factory is engaged in joint production with Wuhu Cigarette Factory of Anhui. Shanghai continuously strengthens the expansion of its advanced technology to the four provinces to play its role as central city. The number of trans-provincial joint economic organizations is also increasing: for instance, the establishment of the Shanghai Economic Zone's Joint Exploitation Corp and the Joint Complete Set Equipment Contract Corp embody the combination of responsibilities, power and profits to give the corporations the status of legal entities and thus further promote economic integration.

During the last 10 days of June, the first Economic and Technological Cooperation Conference of the four provinces and Shanghai was convened in Jinggangshan City, Jiangxi. At the conference, more than 1,700 initial agreements or agreements of intent were reached. More than 100 of them were between Ji'an Prefecture of Jiangxi and elsewhere, which is of great significance for the exploitation of Jiangxi's old revolutionary bases that have relatively backward economies.

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CSO: 4006/829



RURAL, SMALL TOWN ENTERPRISES MUST HASTEN STEADY EXPANSION

Chengdu SICHUAN RIBAO in Chinese 23 Jun 85 p 1

[Commentary: "Rural and Small Town Enterprises Should Continue Steady Development"]

[Text] Since the beginning of this year, rural and small town enterprises in our province have shown continuous development with continued and steady increase in both total output value and total income, while the rate of increase in income surpassed that for output value.

However, we should also notice that the rural and small town enterprises in our province are still below the national average level due to a late start and poor foundation. Furthermore, our rural and small town enterprises at present also face the outstanding contradiction of insufficient funds. If handled inappropriately, the cadres and masses' enthusiasm would be hurt and the development of rural and small town enterprises would be set back, affecting the whole province's economy. Therefore, party committees and governments at all levels must educate the cadres and masses to confront and analyze the difficulties, adopt an overall point of view, overcome the mood of purely relying on government loans and unreasonably blaming others, carry on the spirit of self-reliance, and gradually change rural and small town enterprises' standpoint to get them onto the track of relying mainly on their own efforts to raise funds while making bank loans subsidiary. The party committees and governments also must cast their eyes downward and rely on the masses to fully tap the latent power, open up all avenues to raise funds and manage to seek flexibility amid stringency and high quality with small resources. Lately, Yibin, Ya'an, Dukou, Deyang, Leshan, Chengdu, Chongqing and other prefectures and cities raised funds through various channels and in varied ways and initially met a pressing need for funds, serving as a vivid and powerful example.

All local governments should check up on all the rural and township projects under construction, make a priority lineup for them, make arrangements in a coordinated way, rationally utilize funds and give priority to those projects with good economic results, less investment and quick turnaround in order to make the best of the limited funds. For those projects that would supply the market with truly needed goods and for which most capital construction has been completed, local governments should try every means to help them finish up and

go into operation as soon as possible. Those projects that need much more money to complete should be postponed or their construction scope should be reduced. Those projects with poor feasibility should be resolutely abandoned and the aftermath of such abandonment should be properly handled. Only by distinguishing the order of importance and urgency can the key projects be guaranteed and needed projects under construction be completed.

Local governments at all levels should handle the relationship between speed and results well and shift their work's emphasis to grasping both development and existing enterprise management and increasing economic results. In our province, the output value and profit created by every 100 yuan worth of fixed assets is lower than the national average, meaning that existing enterprises have great potential to tap. The management departments and the vast numbers of employees at all levels of our rural and small town enterprises should improve management and overcome weak links in order to raise their enterprise quality, strengthen enterprise vitality, create even more social wealth and accumulate funds for further enterprise development.

Local governments at all levels should shift from purely grasping the development of enterprises of the two levels of townships and villages to simultaneously grasping the enterprises of townships, villages, production teams, joint households and households, enabling the "five wheels" to spin together. Joint household enterprises and household enterprises have become an important part of the rural and small town enterprise, showing very strong vitality and competitiveness. Embarking on these types of enterprise helps gather idle capital in the hands of peasants and mitigate the contradiction of insufficient capital. Governments everywhere, especially in economically backward areas, must strengthen their leadership, devise plans and adopt measures to help develop the enterprises.

Realizing the three shifts is definitely not an expedient measure, but the summary of the masses' practical experiences. It has been proven that wherever these experiences are understood early, shifts made fast and correct measures adopted, rural and small town enterprises there have the initiative and make steady advancement. Of course, various kinds of problems may emerge in the course of the development of rural and small town enterprises, and we should not try to find fault with them, but instead we should sincerely and enthusiastically help them solve problems and help them develop in a healthy way.

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CSO: 4006/830

PROVINCIAL AFFAIRS

SHAANXI WINS PRIZE AT RECENT SCIENCE, TECHNOLOGY TRADE FAIR

Xi'an SHAANXI RIBAO in Chinese 13 Jun 85 p 1

[Article by Ma Zaixin [7456 0961 2450]: "National Technological Achievements Trade Fair Closes; Shaanxi Concludes 200 Million Yuan Worth of Transactions and Wins Award"]

[Text] The First National Technological Achievements Trade Fair closed on the morning of 10 June. A new force suddenly coming to the fore at the fair, our delegation signed 216.51 million yuan worth of technological transactions covering 398 projects. Taking third place among the 29 provinces and municipalities and autonomous regions, our delegation was awarded second prize by the fair organization committee. The Shaanxi delegation also won the fair's buyer market prize.

The fair was grand in scope. Our delegation brought to the fair 538 technological achievements and put more than 200 kinds of new products on exhibition and for sale. More than 600 people representing different institutions and enterprises, private entrepreneurs and specialized households came to the fair for talks and visit. Our delegation purchased 20 million yuan worth of technological achievements urgently needed by rural and small town enterprises in our province, covering 270 projects. Among the 398 signed transaction agreements, contracts made up 44.6 percent of the total trade volume, 20 percent higher than the average value of contracts, and thus our delegation was commended by the fair committee.

Of our delegation, scientific and technological institutions and universities and colleges made up a big part, accounting for 52 percent. And they signed 68 percent of all transactions.

Trading was conducted in flexible and varied forms. Our delegation members not only were lively at the fairground, but also conducted transactions at their hotels or went to related organizations. Meanwhile, our project varieties were relatively complete, with a whole range of large, medium and small made available, thus making the transactions more and more lively.

Scientific and technological achievements by individuals also entered the fairground. A "gold and silver brush-plating" technique invented by Comrade Ren Fusuo [0117 4395 6956] sold very well at the individual

entrepreneur stall. He signed 70 contracts with a total value of 24,000 yuan. Comrade Xie Rude [6200 1172 1795] from the Huanghe Engineering Machinery Plant transferred his new invention called "negative pressure moulding." These transactions opened the door for personal technological achievements to enter the technology market.

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CSO: 4006/830

PROVINCIAL AFFAIRS

DISPEL FEARS ABOUT PORK PRICES

Xi'an SHAANXI RIBAO in Chinese 5 Jun 85 p 2

[Article by Guo Zhiying [6753 1807 5391]: "Dispel Fears And Raise Pigs in a Big Way"]

[Text] The Huaxian County Foodstuffs Corp adopted timely measures to dispel the worries of pig-raising households after the ban on changing live pig prices was lifted and to promote the development of pig-raising.

After the ban on changing live pig prices was lifted, more pig-raising households thought about giving up their business out of fear that the purchasing price of pigs would become unstable. To dispel their fear, the county foodstuffs corporation worked out local advisory prices and a range of seasonal price differences in accordance with related policies and the tendency of demand and supply for pigs in the county. Afterwards, the corporation sent 35 employees to the villages to do propaganda work far and wide. The corporation assigned this year's planned purchasing quota of 25,000 pigs to 12 grassroots foodstuffs stations, and asked each station to sign purchasing contracts with pig-raising households in every village in its jurisdiction. If market prices are higher than planned purchasing prices, these stations purchase from the pig-raisers at the market price. If the stations break the contract, they will have to pay a 20-yuan fine. As for purchasing live pigs apart from the contract, if market prices are higher than the county's protective price, the corporation can take out a certain amount of money from its enterprise profits to make up for the loss, so that pig-raisers will not suffer economic loss. By the last 10 days of May, the county's pig-raising households had signed contracts for 10,000 pigs and sent 7,000 live pigs out of the county for sale at negotiated prices.

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CSO: 4006/830

PROVINCIAL AFFAIRS

BRIEFS

SHAANXI PETROCHEMICAL INDUSTRIAL SYSTEM--With the development of technological transformation this year, the petrochemical industrial system in Shaanxi Province made economic results of some 7.8 million yuan in the first half of this year for the state. As a result of new packing technology, each year Baoji Petroleum Steel Tube plant can save transportation expenses of some 2 million yuan and timber valued at over 200,000 yuan. Since the transformation of its boiler, the thermoelectricity shop of the provincial chemical fertilizer plant has saved 15,000 tons of coal and 450 tons of oil every year. [Summary] [Xian Shaanxi Provincial Service in Mandarin 0500 GMT 6 Aug 85 HK]

CSO: 4006/847

ECONOMIC DEVELOPMENT ZONES

TIANJIN ISSUES REGULATIONS FOR ECONOMIC ZONE

OW070758 Beijing XINHUA in English 0737 GMT 7 Aug 85

[Text] Tianjin, 7 Aug (XINHUA)--Four sets of regulations have been recently approved by the Standing Committee of the People's Congress in Tianjin, a local legislative body, to protect Chinese and foreign investors in the city's economic zone.

The regulations, aimed at creating an attractive investment environment in the 33 sq km economic and technological development zone, deal with management of the zone, registration, labor affairs and land management.

Tianjin is a major Chinese port and one of the 14 coastal cities further opened to foreign investment last year. Construction began on the zone last December near the Tianjin new harbor.

Preferential treatment for investors in the zone is listed as an independent chapter in the regulations on management of the zone.

Fourteen items in the chapter include exemption of local surtax for joint-ventures, co-operative enterprises and enterprises with exclusive foreign investment set up in the zone before 1990.

According to the regulations, the income tax levied on these enterprises has been reduced to 15 percent in the zone.

Foreigners and compatriots from Hong Kong and Macao may be employed in these enterprises and matters relating to their wages, welfare, labor insurance, dismissal or resignation should be stipulated in contracts, says the 10th item in the regulations on labor management.

Land tax will be exempted or reduced for businesses which bring about educational, cultural, public health, scientific and technological benefits, according to the regulations on land management.

Investors in construction of water supply, power supply, transportation facilities and other infrastructure facilities will

also enjoy exemption or reduction of land tax for five to ten years.

Rapid infrastructure construction in the zone has already aroused the interest of foreign investors, according to earlier reports. Eight joint-venture contracts with Hong Kong and foreign businessmen have been signed for infrastructure projects, and negotiations on other projects are well under way.

CSO: 4020/330



ECONOMIC DEVELOPMENT ZONES

QINGDAO VICE-MAYOR DISCUSSES PORT MODERNIZATION, TRADE

HK030720 Beijing CHINA DAILY in English 3 Aug 85 p 2

[By staff reporter Ding Fuhai]

[Text] Qingdao--Experience has taught this coastal city that advanced technology and equipment are the fastest track to modernization and increased production.

But that will mean attracting more outside capital.

Xu Shanyi, vice-mayor of Qingdao, told CHINA DAILY, "The city wants to focus its attention on medium-sized projects that promise quick profits and require smaller investments."

Contracts for 160 projects, valued at \$124 million, were signed with domestic and overseas investors in the first half of this year. That compares with 120 contracts, valued at \$163 million, signed last year.

Imports in the first half of 1985 were valued at nearly \$97 million.

Equipment purchased from Hong Kong, Macao and 12 countries primarily went to 178 textile, rubber and electronics manufacturers. Imported equipment will retool 75 production lines, giving local industries an entirely new look, the mayor said.

Imported equipment is expected to boost production value in Qingdao by more than \$2.6 billion next year. About \$50 million of the increase is projected to come from export earnings, Xu said.

The vice-mayor said the port city intends to build on a solid foundation of light industry and shipping by diversifying into food processing, chemicals and fine instruments.

One of the city's most famous exports, Tsingtao Beer, will be joined by a catalog of products as the city seeks to expand foreign

trade. About 330 of the city's industrial products are already exported, Xu said.

Qingdao is one of 14 coastal cities opened to trade by the state last year.

"Qingdao's exports were valued at only 400 million yuan in 1980," Xu said, "but the figure doubled in 1983, and is expected to hit 1 billion by the end of this year. By the end of 1990, the city hopes to hit the 2 billion yuan mark."

Increased exports translate into higher foreign currency earnings, he noted.

Qingdao Port handled about 24.7 million tons of cargo last year, setting a new record and ranking fourth in the country. The port's foreign trade transactions were valued at 9.3 million yuan. Export value rose about 24 percent.

More than 1,300 foreign vessels drop anchor at the port each year, carrying crude oil, fertilizers, steel, ores, fabrics, and food-stuffs.

Qingdao is also strong in agriculture and fishing and exports almost 100 agricultural products, including peanuts, fruits, vegetables, meat, prawns and fish.

The city is trying to strengthen its agricultural base by encouraging surrounding rural areas to boost production. Agricultural products carried by farmers directly to urban markets last year totalled more than 70 million kilograms, a 40 percent increase over the previous year.

More than 5,000 businessmen from Hong Kong, Macao and 20 countries have visited Qingdao for trade talks.

"Qingdao is a bright pearl on the Yellow Sea," Xu said. "Its scenery offers obvious advantages for expanded tourism."

The city has established a special development zone with preferential benefits available to overseas investors.

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ECONOMIC MANAGEMENT

ECONOMIC JOURNAL ON COOPERATION AND PLANNING

HK061524 Beijing JINGJI GUANLI in Chinese No 6, 5 Jun 85, pp 18-20, 25

[Article by Gao Lianqing [7559 6647 1987] and Xia Guangming [1115 1684 7686]: "The Development Trend in Economic Technological Cooperation and the Task of Planning"]

[Text] Following the implementation of the policy of opening to the outside and enlivening the domestic economy and the intensive development of the reform of the economic structure, various forms of economic technological cooperation have developed in our country between the regions, between regions and departments, and between departments. Actual practice in recent years has shown that the small investment required, quick results and high benefits of economic technological cooperation have served as an important road to quickening the development of the national economy and building a socialist system with special Chinese characteristics.

At present, the situation of economic technological cooperation has developed rather rapidly. In 1984, in the whole country, over 17,000 interprovincial cooperation projects (including those indicating intent) were negotiated, an increase of 100 percent over 1983; the gross value of the materials involved in cooperation was 8.67 billion yuan, an increase of 75.5 percent over 1983. The various kinds of materials involved in the cooperation projects were: timber, 25.4 million cubic meters, an increase of 33.7 percent over 1983, cement, 25.3 million tons, an increase of 15.5 percent over 1983; pig iron, 0.74 million tons and coke, 1.61 million tons, increases of 85 percent and 49.1 percent respectively over 1983; and coal, 32.75 million tons, an increase of 38.1 percent over 1983. On the basis that each 40,000 tons of coal produces 100 million yuan worth of industrial output value and 20 million yuan of taxes and profits, it is estimated that 81.88 billion yuan of industrial output value and 16.38 billion yuan of taxes and profits could be produced. In addition, cooperation in personnel between the various provinces, municipalities and autonomous regions, also developed. The developed regions and democratic parties extensively increased their intellectual-aid activities to, and among, the border areas and localities inhabited by minority races. In this cooperation, the following special features can be seen: 1) A large proportion of technological cooperation projects. Of the total number of cooperation projects, technological

cooperation makes up over 50 percent, thus illustrating that the major purpose of cooperation is in promoting technological progress. 2) An increase in the number of large and medium-sized projects among the joint projects. The principal purposes are to open up energy resources, develop communications facilities and solve the problem of insufficient supplies of raw materials. In 1984, at the national economic technological cooperation conference convened in Tianjin, of the 1,700 cooperation projects completed, the statistics on only 30 of the relatively large-investment projects showed that their total investments amounted to over 1.9 billion yuan. Fifteen of these projects were in the 10,000 yuan to 50 million yuan range, 9 projects in the 50 million to 100 million yuan range and 4 projects were over 100 million yuan each. According to statistics, for the Sixth 5-Year Plan and the Seventh 5-Year Plan periods the capital funds already raised and being raised for the joint projects amount to over 10.5 billion yuan of which those projects for coal, electricity, communications, post and telegraph, and construction materials amount to 9.965 billion yuan, or over 95 percent. This will play an important role easing the tense situation in the supply of energy, communications and transportation facilities, and raw materials in our country. 3) An increase in the number of long-term cooperation projects. Between many localities, cooperation projects of a one-time or temporary, nature have developed into long-term and permanent cooperation projects. For example, Shanghai, in order to solve the shortage of aluminum ingots, cooperated with the Dongchuan aluminum plant of Shanxi Province. Over a period of 3 years it has invested a sum of 36 million yuan, helping the plant to carry out technical transformation and improve the quality of its aluminum ingots. On the part of the Dongchuan aluminum plant, it undertook, in the 8 years after completion of its technical transformation, to supply Shanghai with 50,000 tons of aluminum ingots. Provinces and cities like Jiangsu, Tianjin and Beijing also have entered into similar cooperation agreements with outside regions. 4) [Word indistinct] cooperation projects, there are combinations between regions, between department, and between departments and regions, thus breaking the demarcation line between departments and regions and between regions and regions. It has also reduced the obstacles to economic activities but allowed activities to develop smoothly. In short, economic technological cooperation is developing in the direction of being extensive in content and large in scale, bringing new vitality to the economy of our country.

According to the Marxist viewpoint, cooperation naturally appears because of the "spatial relations of objects to labor," that is to say, the state of distribution of natural resources and raw materials serving as the material wealth of human social production, or rather, the unbalanced state of their distribution determines that in the course of production mankind must necessarily cooperate among themselves. Our country has a vast territory. Enormous differences exist in the natural conditions and natural resources are abundant but their distribution is extremely uneven. A great disparity also exists in the social and economic development levels of different localities. The regions all have their own superior features and also insufficiencies. No single region, or department, or enterprise can be totally independent. For example, Shanghai and Jiangsu are at present our country's most

economically developed regions but they are also regions sadly lacking in natural resources and raw materials. Large quantities of raw materials such as coal and minerals have to come from the outside. Light industrial products, textiles and chemicals all have to depend on supplies from other regions. Although the state has arranged supply targets for them, still their demands cannot be fully met and a large proportion must be met through cooperation. From 1979 to 1983, industrial production in Shanghai averaged an annual increase of 5.8 percent but the increase in the coal supply under the state plan was only 0.1 percent; the supply of steel products was reduced by 0.1 percent; supply of 6 kinds of non-ferrous metals was reduced by 0.27 percent and cement, by 0.8 percent. Obviously, without active cooperation from the provinces and municipalities within the country, these gaps could hardly be filled. Precisely because Shanghai had entered into extensive economic cooperation with many regions in the country, it has been able to ensure the continuous development of the economy. The realistic national conditions of our country are: The eastern coastal areas enjoy an obvious superiority in economic, scientific, technological and cultural development but lack in resources, whereas the vast hinterland and border areas, particularly regions inhabited by the minority races, enjoy a superiority in resources but are comparatively backward in economy, science and technology, and culture. If, internationally, there are problems in east-west talks and north-south cooperation, then in our own country there is the problem of east-west cooperation. Our eastern and western regions each have their own superior features and the superior features of one side are conversely and precisely the inferior features of the opposite side. If the superior feature of the eastern and western regions are joined together, then the insufficiency of the two sides can be overcome and like in a nuclear reaction, an immense quantity of energy will be released and will undoubtedly lead to the development of the entire economy of our country. Hence, insofar as our country is concerned, developing economic technological cooperation is vitally necessary. It should be considered an important measure in developing the national economy of our country.

In 1982, Comrade Zhao Zhiyang pointed out: A plan should be divided into two portions: one portion is the central government's direct plan which is from top to bottom; the other portion is the bottom-to-top local plan and regional cooperation plan. However, in the past, the regional cooperation plans were never reflected in the national plan. In order to solve the problem of planning, and when carrying out overall balancing because in reality there are two parts, all the portions should be included and the two parts should be joined together to form the state's unified plan. Quite obviously, the regional cooperation plan is a part of the state's unified plan. This part of the plan should be carried out in accordance with the principles of the commodity economy and the law of value and should not principally depend on administrative measures. By so doing, the economy can be further enlivened and can develop more rapidly. Hence, Comrade Zhao Ziyang called it an "extremely active and rich form of planned economy" and asked that "it should not be taken as alien to the plan." At present, the planning structure of our country is going through an intensive reform. The scope of mandatory planning has been reduced while that of guidance planning and

that of regulation by market mechanism has been enlarged. This has opened up even broader avenues for developing socialist commodity production, strengthening horizontal economic relations and extensively cultivating economic technological cooperation. For a considerable length of time, our planning departments have been compiling plans on the basis of departments and regions and have not, or seldom have, carried out coordination with economic technological cooperation and guidance planning. Actually, experience in this is lacking. At present, a problem urgently awaiting solution is: How the planning departments should strengthen guidance planning and promote the healthy development of economic technological cooperation in light of the reform of the economic structure.

Since economic technological cooperation is a kind of horizontal economic activity extending through various regions, industries, trades and departments, its work must necessarily be healthy and complex and touch on relations with many sides. For example, with regard to relations between regions, between regions and departments, and between departments and departments, and even between the various departments of the central government, these relations all need to be coordinated by the planning department. Facts have shown that without coordination by the planning department, cooperation cannot progress smoothly; conversely, it will progress rapidly. This is the objective demand of economic technological cooperation. Concretely speaking, it is necessary for economic technological cooperation to help in the following: 1) Cooperation in liaison between products, raw materials and the state plan. No concrete production department can accomplish this alone. 2) Communications and transportation are the outstanding problems in cooperation. The contradictions between transportation capacity and demand are rather acute. Cooperation aimed at increasing the transport volume of products, raw materials and other kinds of goods will solve these contradictions. Given the precondition of ensuring the fulfillment of state transportation plans, how to do a good job of transporting the materials and products requires the planning department's cooperation in the solution. 3) Following the extension of decisionmaking power to enterprises, the amount of funds under the control of the regions and the enterprises has increased and can freely and fully flow between the two cooperating parties according to their needs. In particular, following the state liberalization of its planned control over the funds raised by the regions, departments and enterprises themselves, the power of the regions to use foreign capital and foreign exchange has been extended. The regions are empowered to utilize their own funds to develop economic technological cooperation, in diversified forms such as joint-operation, jointly-owned or jointly-operated enterprises, compensation trade and so forth, with other regions and departments. But how to utilize these funds still needs the guidance and cooperation of the planning department. 4) Commencing in 1985, the number of industrial products subjected to mandatory planning by the State Planning Commission has been reduced from over 210 to around 60 while the number of agricultural sideline products subjected to the state's planned purchases has likewise been reduced from the original 29 to around 10. For products not subjected to the state's mandatory planning or guidance planning, regulation by market mechanism is enforced. Hence, following expansion of guidance planning and

regulation by market mechanism, the scope of cooperation has been further extended. In order to reduce losses caused by a lack of knowledge about the market, it is still necessary that on the whole the planning department should provide guidance and coordination. 4) In order to fully utilize their superiority in local resources to develop the economy, border areas inhabited by the minority races should join with the developed areas to operate enterprises of a developing nature such as establishing factories, power plants and communication enterprises, opening mines and developing forestry and animal husbandry projects. But the economy and culture in border areas inhabited by the minority races are backward. The problem is how the developed areas, in the course of cooperating with, and rendering direct aid to, these border areas, may pay due regard to the special features of the minority areas and adopt the most effective methods. In this regard, strengthened guidance should be accorded by the state planning department. In particular, rendering direct and appropriate aid constitutes a political task entrusted by the party and the state to the developed areas. The state planning department is duty-bound to give it strong support and to help in its fulfillment. 6) Exchange of information. The state planning department has grasp of the whole situation, and has knowledge of the actual conditions in various localities. It is in a position to supply valuable information to both cooperating parties, thus avoiding any activities of a blind or unguided nature.

In short, following the delegation of management power and the extensive development of economic technological cooperation, planning work has come face to face with a new situation. The work of the planning department has not become less but more; hence it should not be weakened but should be strengthened.

In order to facilitate the intensive development of economic technological cooperation so that it can play an even greater role in our country's economic construction, it is still necessary to perform the following lines of work well:

#### 1. Unified planning.

With many regions, departments and enterprises showing their interest in economic technological cooperation and carrying out, or preparing to carry out, economic technological cooperation, the problem of concern is, under conditions of the limited manpower, material power, financial power and resources of the state (or regions), how, on the one hand, to bring the superiority of the various regions into full play and, on the other hand, avoid going into cooperation blindly and the consequent losses. In cooperation, it is necessary too that both parties receive due benefits and, at the same time ensure improved benefits to the state, regions and departments as a whole, particularly taking into consideration the long-range interests of the state. To accomplish this, it is necessary to carry out unified planning and guidance in economic technological cooperation. The various cooperation plans should be formulated through consultation by the overall plans of the regions and departments concerned, clarify the direction of development



and the problems needing solution, and should conform with the demands of the long-term plan of the state. At the same time, in the long-term cooperation which they envisage, due regard should be given to the overall balance of the regions and departments. As for the big and important joint projects requiring relatively large investments and a rather long construction period, they must fully discuss and follow the necessary procedure for approval according to the state regulations. At present, many regions have already completed their own economic technological cooperation plans and long-term plans.

## 2. Management at different levels.

Management at different levels is related to handling efficiently the relations between the departments and regions. The two levels are the central government and the localities, and in the case of the localities there should likewise be several levels. Regarding the cooperation plans, the current situation of development appears to show that the central authorities should handle the large and medium-sized economic jointly-operated projects and the transportation plans of the major cooperation materials. The purpose of management by the central authorities is not to take strangle-hold control over the cooperation projects; rather, it is to create the conditions for, and to enliven, cooperation. As for these large and medium-sized cooperation projects and transportation of material in large quantities, they should not only be duly included in the state plan but also, subject to permissible conditions of the state, be given the necessary support. This will help in improving the geographical distribution of productive forces and strengthen the overall balance of the various localities. As to the rank-and-file projects of economic combination, technological cooperation and cooperation in materials, they should be subjected to unified planning and arrangements at the provincial, city, regional and county levels.

## 3. Guidance in separate categories.

In developing economic technological cooperation, the central authorities, localities, and departments all have the problem of giving guidance in separate categories and refraining from treating all alike. Insofar as the central authorities are concerned, they should support the development of economic technological cooperation mainly by thoroughly implementing the party's various guidelines and policies and making use of various measures of economic regulation such as those relative to prices, taxation, credits and loans, and allocation of materials; with regard to regions with different levels of development economically, culturally and technologically, they should be given guidance separately. Regarding border regions and areas inhabited by the minority races, in order to open up their resources and develop their scientific, technological and cultural enterprises and enable them to absorb and use the funds and technologies of the economically developed regions, the state should adopt a liberalized policy concerning targets for loans, taxation, and investment. Regarding projects whereby certain localities raise funds by themselves for opening up energy resources, developing communication facilities, or producing short-line commodities, the state should support them by reducing or exempting their taxes. As for



imported capital funds, they should be subjected to separate and independent accounting, without being counted in the targets for self-raised funds of the regions and departments. As for funds, materials and commodities obtained through the cooperation projects, they should not be subjected to unified control or allocation and should be exempted from the allocation targets. In other words, whoever obtains the funds, materials and commodities through cooperation has charge of the project and receives its benefits. As for the development regions which give aid to the undeveloped regions, the policy of the state should likewise be to give them due consideration so that both parties of the cooperation agreement can receive real benefits. Because all regions internally have areas that are advanced and areas that are backward, the method of guiding separately may likewise be adopted. In this way, direct aid within the confines of a region may be developed, and the policy connected with it may be suitably liberalized in accordance with the different conditions. For example, Sichuan Province has organized the four cities of Chengdu, Zhongqing, Zigong, and Dukou to render this kind of aid to the three autonomous [word indistinct] of Aba, Ganmu and Lingshan, and has obtained good results.

#### 4. Setting up a heavy economic information system.

Prompt and accurate economic information provides an important basis for the formulation and execution of economic technological cooperation plans. The various regions and departments should strengthen their information and forecasting work and be able to provide, on time, comprehensive and specialized information so that economic technological cooperation can achieve great social and economic results.

#### 5. Economic legislation.

In order to ensure the smooth progress of economic technological cooperation and that regulations may be resorted to when problems arise, legislation work is a necessity. Laws provide the rules of conduct, are a restrictive force, and encourage man's observance of cooperation project that have been formed and thereby void or reduce errors in work. Hence, legislation in economic technological cooperation is exceedingly necessary. But legislation is complex and meticulous work and should be carried out on the basis of thoroughgoing and real earnest investigation and research.

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ECONOMIC MANAGEMENT

WUHAN COURSE ON ECONOMIC REFORM COMPLETES FIRST SEMESTER

Wuhan CHANGJIANG RIBAO in Chinese 9 Jun 85 p 1

[Article by Xu Longfa [1776 7893 7569]: "First Class of Wuhan Research Class on Economic System Reform Winds Up"]

[Text] On the morning of 8 June, the first class of the Wuhan Research Class on Economic System Reform was officially graduated. Students put forward many good ideas about several problems that require conscientious solution in Wuhan's economic system reform.

All of the students are cadres in charge of economic system reform in their working organizations, and the overwhelming majority are young or middle-aged. On the basis of integrating theory with practice, the students presented their ideas on how to solve the question of multi-sided leadership in the management system of Wuhan Wharf in order to bring into full play the role of water transport, and reached the agreement that each city can have only one management organ. They also presented many constructive ideas concerning how the state-owned vegetable market should participate in market adjustment and establish price levels since the ban on price changing in the vegetable market was lifted. They also put forward some tentative ideas that were of significance with regard to vigorously developing tertiary industries and giving full play to the city's multiple functions.

Wuhan Party Secretary Li Zhi [7812 2535] and Vice Mayor Zhao Baojiang [6392 1405 3068] conferred class completion certificates to the graduates and encouraged them to apply the theories they learned to directing the reform and to play the role of "seeds" in the reform.

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ECONOMIC MANAGEMENT

RURAL, SMALL TOWN ENTERPRISE DEVELOPMENT IN YANSHI COUNTY

Beijing RENMIN RIBAO in Chinese 6 Jul 85 p 2

[Article by Li Haifu [2621 3189 3940]: "Exert Strength Inwardly and Borrow Resources from Outside; Yanshi County's Rural and Small Town Enterprises Develop Steadily"]

[Text] Acting according to its abilities, Yanshi County of Henan Province exerts strength inwardly and borrows resources from outside, enabling the county's rural and small town enterprises to develop steadily. By the end of May, these enterprises reaped a total output value of 94.5 million yuan and handed in taxes amounting to 2.14 million yuan, registering respectively 30 percent and 40 percent increases over the same period last year.

Yanshi County of Henan Province is in western Henan and had a late start at rural and small town enterprise. In order to vigorously develop these enterprises, the county party committee and county government last year advanced the slogan "Exert strength inwardly and borrow resources from outside, seek steady development and emphasize economic results," asking the county's villages and towns to adopt various measures according to local conditions to actively and steadily develop rural and small town enterprises. At present, initial results have been obtained. Their primary methods were:

--Mobilize the masses to raise funds. Utilizing the advantage that quite a few peasants have savings at hand, they raised a total of more than 24 million yuan from January to May by adopting such measures as making efforts on all sides to encourage the masses to deposit money in the bank, mobilizing workers to bring their own money into factories and the masses to become shareholders to establish stock enterprises, taking loans from among the people, digging out sedimentary money, pressing the repayment of loans, promoting the sale of overstocked products and cutting expenses. Chengguan Rubber Products Factory mobilized peasants to become their shareholders and quickly raised 140,000 yuan, thus enabling the factory's suspended construction to resume quickly.

--Make use of local advantages and attract investments from elsewhere with favorable offers to develop cooperative enterprises. Yanshi County is rich in such natural resources as granite, marble and coal, abounds in agricultural produce and sideline products, and has convenient communications and transportation. Cadres of county, township and village made contacts with

science and technology institutes, industrial and commercial enterprises as well as universities and colleges, offered them favorable conditions, and welcomed them to make investments and join cooperative enterprises. Statistics show that from January to May, the county attracted a total of more than 15 million yuan from elsewhere and established 161 enterprises with joint investment.

--Make scientific evaluation of new enterprises and guarantee the success of every new enterprise to produce desired results. The county has stipulated that proposed enterprises with investment of less than 100,000 yuan should be evaluated by township governments, and enterprises with investment of more than 100,000 yuan should be evaluated by the county's economic center. The county requires that emphasis be put on the development of the industries that do not have to compete with big industries for raw materials or markets and consume less energy, such as the processing of agricultural produce and sideline products, the construction materials industry, and mining. Chengguan Township originally planned to set up a floating-method glass factory, which would need an investment of more than one million yuan, and besides that there was not enough electric power. The county evaluated the project and soon ordered the project abandoned to avoid losses. So far this year, more than 110 proposed projects have been abandoned after the county's evaluation. On the other hand, both the county government and township governments actively support those enterprises that need smaller investments but produce quick results and have given them the "green light." When Dianzhuang Township's Xinhua Garments Factory started in an old workshop, each of its 180 workers came to the factory with a sewing machine and 300 yuan. But they needed 100,000 yuan as a circulating fund to purchase garment materials, and the county and township governments provided timely aid. This enabled the factory to begin production in April, after only one month's preparation. All of the 1,715 enterprises--which range from food processing and garment-making to construction materials, mining and minerals processing, and coal mining and processing--put into operation between January and May by the three levels of townships, villages, and individuals, were strictly evaluated.

--"Shaving the beard"--solving half-finished projects that had dragged on too long. The county government made timely investigation and lined up the unfinished projects and resolutely made decisions to discontinue eight projects that engulfed too much investment and had difficulties with raw material supplies and markets. On the other hand, the county government gave timely support to those enterprises that had unimpeded production, supply and market channels but needed only relatively small investments to retool or be put into operation. By the end of May, 58 out of 96 unfinished township projects in the county had been completed with sets of equipment and put into operation.

--Strengthen the competitiveness of rural and small town enterprises. In the past, quite a few rural and small town enterprises flailed about in all directions without clear direction of development. Since the beginning of 1985, the county government has required every township to have clear direction with a major specialization, so that resources can be concentrated to raise quality and produce high-quality goods for the market. Dianzhuang Township combined its 34 garment factories to set up a garment corporation. The

township government acted in a timely way to provide market information, supervised garments quality and quickly organized production whenever it learned of suitable products for the market, and made the township's garment industry a very competitive force. Its products have a ready market in Luoyang City and have basically occupied the western Henan market in both cities and the countryside. Koudian Township's main specialization is granite excavation and processing; Zhaizhen Township's emphasis is on knit underclothes; Foguang Township engages in marble excavation and lime production; Yuezhen Township concentrates on food processing; and specialized production has taken shape around townships throughout the county.

Furthermore, the county also invited more than 300 engineers and technicians from Shanghai, Beijing, Xi'an, Zhengzhou and other places to serve as enterprise advisers, set up 84 information and liaison stations in 22 provinces to form a network and invited 1,379 part-time information workers. All of these have helped them raise product quality and increase competitiveness.

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ECONOMIC MANAGEMENT

RENMIN RIBAO ARTICLE ON INVESTMENT CONTROL

HK050255 Beijing RENMIN RIBAO in Chinese 22 Jul 85 p 5

[Article by Zhou Daojiong [0719 6670 3518]: "Macroeconomic Control and Micro-economic Self-regulation of Investment"]

[Text] In 1984, our national economy steadily developed. Our main problems were the excessive issuance of currency, the rapid increase in bank loans and consumption funds, and the enormous increase in investment in fixed assets. Since the beginning of this year, some regions and departments have been overly enthusiastic about high speeds and investment uncalled for by the state budget has been increasing. Our main problems are that the plans are becoming increasingly ambitious, that the key construction projects have been deprived of much investment, that the practice of not stating the volume of investment is becoming increasingly serious, that there is the renewed tendency to blindly execute and publicize construction projects, and that the results yielded by investment are decreasing. An important problem in our present national economic work is to effectively and strictly control the scale of investment.

It is of course necessary to keep our economy developing at a certain rate. However, if construction is too extensive to be permitted by the country's strength and if we try to achieve high speed on the basis of a high accumulation rate, there will be problems in energy supply, communications, and the supply of raw and processed materials, the supply of foreign exchange will be strained, funds for production and maintenance of facilities will diminish, and economic development will be affected. Instances of economic dislocation are still fresh in our memories. We cannot afford to pay scant attention to this problem.

In order to control investment in fixed assets, the whole country must reach a common understanding and adopt a series of effective measures. An important measure to control investment would be, generally, to strengthen the control of the total supply of funds, and, specifically, to arouse the enterprises' enthusiasm for checking investment and deriving better results from investment. We should conscientiously pay close attention to it.

## Prevent State Funds From Draining Away Through Improper Channels

The excessive investment in fixed assets is mainly a result of the failure to control extra-budget funds. The main purpose of strengthening the general control of funds is to bring extra-budget funds under control.

On one hand, the rapid increase in extra-budget funds is a result of the structural reforms and of the development of production and circulation. In order to revitalize the economy, our policies should be such as to allow an increase in the funds to be retained by the regions, departments, and enterprises each year. This is a good thing. The state should, by means of an overall balance, incorporate this healthy increase into the total supply of funds and ensure that this increase will go to the regions, departments, and enterprises in order to facilitate the revitalization of the economy. However, the enormous increase in self-raised funds draws our attention to another problem. That is, some regions and enterprises have gone beyond what is permitted by the policies by deliberately raising more funds for investment in fixed assets than are called for by the plans. The finance and taxation departments, the banks, and the finance departments of the enterprises should, according to the fixed sources of self-raised funds, exercise strict control in order to prevent state funds from draining away through the improper channels.

1. It is necessary to apply the system of contracted responsibilities for a progressive increase in the output of means of production and to allow people to derive a profit from the sales of above-quota output of means of production at a price different from the fixed prices provided that the state allotment plans are fulfilled. No one is allowed to sell the means of production at negotiated prices if the allotment plans are not fulfilled. In the first quarter of this year, of the contracts for supplying to the state 17 types of goods and materials subject to centralized distribution, such as coal, pig iron, and steel products, those for supplying 15 types of these goods and materials to the state were not fulfilled as a result of the excessive sales of these goods and materials by the contractors to others. This has adversely affected the state's key construction projects and the fulfillment of the production tasks and prevented the flow of large sums of funds from scattered enterprises to the finance departments. This situation is quite grave.

2. In the event that the enterprises' development funds are diverted to investment in fixed assets, they must be accordingly replenished in terms of circulating funds according to the regulations. The enterprises must not invest all their [word indistinct] in fixed assets and totally rely on the state banks for all the circulating funds they need because this may lead to a dislocation of the ratio between the accumulation of fixed assets and the accumulation of circulating funds.

3. At present, given the outstanding accounts resulting from the renewal of facilities and the low depreciation rates, the state stipulates that



the low depreciation rates, the state stipulates that the enterprises' depreciation funds must be used in the upgrading and renewal of facilities only. It is explicitly stated in the State Council's "Provisional Regulations Concerning the Depreciation of the State-owned Enterprises' Fixed Assets" that the enterprises' depreciation funds must not be used "to pay for the construction of new buildings, extension projects, and other capital construction projects." This year, the state is to raise the depreciation rates for a few large key enterprises, the major mechanical industries, the 1,100 or more light and textile industry enterprises listed on the 3-year export plan, and some industrial enterprises in those coastal cities, except Shanghai and Tianjin, to be opened to the world, and no others.

4. The enterprises' repair funds are funds for maintaining their fixed assets, not compensation funds (those enterprises which renew all their facilities by stages are an exception to this principle). At present, some regions and enterprises are unconditionally and indiscriminately investing both their repair funds and depreciation funds in fixed assets. We must not do this.

5. In reducing or remitting the regulatory tax, product tax, income tax, and value added tax levied on certain products or imposed on those enterprises which can meet certain conditions, in extending bank loans to them at low or reduced rates, and in exempting them from interest or even principal payments, we must do things in accordance with the policies. We can neither increase nor decrease the number of enterprises enjoying such privileges without approval. At present, there is the serious problem of enterprises evading taxation. In some parts of the country, it has been discovered on inspection that more than 70 percent of the state-owned enterprises evade taxation.

In order to stop up these loopholes, it is necessary to institute a system for checking the enterprises' self-raised funds. We cannot afford to pay scanty attention to this problem.

The banks are also to blame for the enormous increase in extra-budgetary funds. In order to conscientiously solve the problem of the lax control over credit administration and the problem of putting too much money into circulation, we must, in the field of banking, attach primary importance to the tasks of strengthening overall control, strictly controlling the extension of credit, and withdrawing more currency from circulation. This year, the state has decided on the total amount of credit to be extended and the total volume of currency to be issued by keeping an overall balance between these two things on the one hand and the finance, the supply of goods and materials, and the foreign exchange reserves on the other. They roughly accord with this year's national economic plan and the total volume of investment in fixed assets. A crucial problem would be to assign loan and credit ceilings to the banks at all levels. The banks should adopt effective measures to strictly stick to them. Capital construction projects and technical transformation projects financed with bank loans should be executed in accordance with the state's investment plans. The banks must not extend loans in violation of various plans and policies. In the event that people increase



investment without approval, the banks should adhere to the principle of "first, reporting to the authorities, second, stopping them, and third, refusing to give money." At present, it is necessary to stress the need to prevent some regions from raising funds by borrowing money from the banks. Self-raised funds refer to the funds raised by the enterprises and used in capital construction in accordance with the relevant regulations. They do not include bank loans. Both self-raised funds and bank loans are a part of society's total capital and they are to be used for separate purposes. By confusing them, we can directly increase investment, extend the capital construction front, and adversely affect the national economy.

Naturally, the banks strengthen overall control in order to revitalize the economy, not to stagnate it. In strengthening control, the banks should, first, not lend more money to people than the prescribed total amounts, and second, reorient their loans to people. They should, by extending loans not exceeding the prescribed total amounts, ensure the key construction projects and pay due attention to ordinary construction projects at the same time. In addition, they should, aiming at facilitating the readjustment of the production setup and the attainment of better social and economic results, support the above projects and regulate the extension of loans to those enterprises with poor economic results. Thus, the banks should devote efforts to improving the results derived from loans, have an in-depth understanding of the circumstances, and, on the basis of the actual circumstances, properly assess various projects and applications for loans and use financial resources where they are most needed. They should aim at making all the projects financed by them a success, the early completion of projects financed with timely loans, and the completion of the maximum number of projects with the minimum amount of loans. In this way, society as a whole can enjoy the results and the people can receive substantial benefits. At present, when we are emphasizing the need for a stricter overall control, we must not take the road back or, without basing ourselves on the actual circumstances, "impose uniformity on things" and "arbitrarily iron out all differences." Obviously, this is not what we mean by an overall control and is detrimental to the ongoing reform of the economic structure.

#### Construct Spontaneous Economic Mechanisms for Regulating Enterprises' Demand for Investment Funds

Apart from trying to make the overall control of credit funds a success, we should also pay attention to the problem of how to construct spontaneous economic mechanisms for regulating the enterprises' demand for investment funds. In the past, whenever we tried to control things, we could only make general efforts and resort to external pressure on the enterprises. We never tried to rationalize investment by recourse to their internal factors. Thus, we always failed to achieve the anticipated results even with double effort. Things could be more satisfactorily done if we combine the two methods.

In the past, our finance departments used to allot funds without asking for things in return, thus encouraging the tendency for the enterprises to vie

for funds and to submit projects for approval. The enterprises only had motives for increasing investment but no balancing mechanism for restraining themselves. Since its application, the system of the remuneration use of investment funds has significantly contributed to the adequate use of credit and to making the most of funds. In addition, it has also forced the enterprises to take investment results into account. Compared with those allotment systems in force in the past, it represents great progress. At present, one of our problems is that the low interest rates and the absence of flexibility contribute very little to regulating the demand for investment funds. We should duly raise the interest rates on capital construction loans and other interest rates in order to give further play to the role of interest rates as an economic level. Second, those funds "allotted for or diverted to capital construction, capital construction loans," and the loans extended by the banks, using the money deposited in them by other people, are repaid with the enterprises' pre-tax profits, that is, most of the loans are to be repaid with the state's financial resources. The enterprises actually do not have any responsibilities to bear. In addition, more often than not the enterprises are better off and have nothing to lose. If the additional profits derived from the new projects financed with loans are greater than the interests calculated at the current average interest rate in society, then the state can receive more profits and the enterprises can retain more profits too. If the profits derived from the new projects are smaller than the interests calculated at the current average interest rate in society, the state can only get less than the average profits. However, comparatively speaking, the enterprises can still retain much, although not as much as in the other case. Only when the projects incur losses will the enterprises have to suffer a little. Thus, under this system, it is very difficult to check the enterprises' appetite for large amounts of investment funds or to ask the enterprises to consciously keep a balance between investment and results in policy-making. It is equally difficult to ask them to pay attention to the economic results of investment.

We should properly study the problem of eliminating the internal factors governing the enterprises' demand for more investment funds and institute a funding system under which the enterprises will voluntarily regulate investment and pay attention to the economic results of investment. This system should correlate with the enterprises' economic interests. In this way, the enterprises will have motives for restraining investment and preventing investment from yielding poor results.

Since the finance departments put an end to the practice of centralizing revenue and expenditure and successively took the first and second steps in substituting taxes for the delivery of profits, there have been some structural changes in our distribution of funds. Through investment, some of the enterprises' profits and depreciation funds have been converted into the enterprises' own funds, which coexist with the state funds allotted to them. Thus, the ownership of funds has been given the dual character of state ownership plus ownership by the enterprises. However, the differences are confined to the division of ownership between the state and the enterprises and to the listing of state funds and the enterprises' own funds on accounts and the report forms. They do not affect the distribution

of funds. In other words, the amounts of funds owned by the enterprises have no bearing on the amounts of profits to be retained by them. In this way, the ownership of funds by the enterprises cannot play its role as expected. It can neither arouse the enterprises' enthusiasm about accumulating more nor help the enterprises rationally allot their own funds for consumption and accumulation. It does not encourage the enterprises to use their own funds, to refrain from borrowing money from the banks, or to derive better economic results from their investment.

Our proposal is that the burden of investment, which is mainly borne by the state's finance departments, should from now on be borne by both the enterprises and the state. The enterprises are allowed to directly invest with their own funds or with loans from the state banks. However, they are not just to repay a very small part of the loans with their pre-tax profits. The increase in the amounts of repayments should be proportional to the increase in their own funds each year. Although the enterprises may invest or may have to repay loans, they are required to correspondingly increase their own funds. The amounts of funds owned by the enterprises are among the factors to be considered in the distribution of funds.

Under such a funding system, the enterprises will have to bear part of the burden of investment and the amounts of funds contributed by them to various projects will be among the factors to be considered in the distribution of the profits yielded by these projects. Its good results and large profits are derived from the new projects, the enterprises will receive much. On the other hand, if the new project yields meager or even no profits, little or even no interest will be derived from their investment. In this way, we can construct spontaneous economic mechanisms, which combine responsibilities, rights, and benefits, for regulating the enterprises' demand for investment funds. These mechanisms will be favorable for a balance between long-term and short-term interests, that is, between accumulation and consumption funds. In addition, they can also help us curb the enterprises' demand for investment funds and prevent people from investing money in non-profitable projects.

CSO: 4006/850

FINANCE AND BANKING

ZHEJIANG 1984 FINAL ACCOUNTS, 1985 BUDGET

OWO61100 Hangzhou ZHEJIANG RIBAO in Chinese 16 Jun 85 p 2

["Excerpts" of report on 1984 final accounts and 1985 financial draft budget delivered by Wu Jian, director of the Zhejiang Provincial Department of Finance, to the Third Session of the Sixth Zhejiang Provincial People's Congress on 6 June]

[Text] Fellow deputies:

On behalf of the provincial People's Government, I am now submitting to the session a report on the 1984 final accounts and the 1985 financial budget (draft) for your examination and discussion.

I. Final accounts for 1984

In 1984, because of the considerable increase in industrial and agricultural production, the financial revenue and expenditure of our province both exceeded the preceding year by a rather big margin and overfulfilled the budget.

According to the 1984 final accounts, the total revenue stood at 4,581,130,000 yuan, equivalent to 110.4 percent of the budget and showing a 12.6-percent increase over the preceding year. The essential breakdown is as follows: Industrial and commercial tax receipts totaled 3,431,070,000 yuan, or 118.1 percent of the budgeted figure. After deducting 31.65 million yuan which represented the portion of tax receipts resulting from the second-phase program of substituting tax payment for profit delivery involving state-owned enterprises, the amount of industrial and commercial tax receipts would be 117 percent of the budget. Receipts from industrial enterprises amounted to 799.4 million yuan, or 92.4 percent of the budget. Receipts from commercial enterprises totaled 299.44 million yuan, equivalent to 89.4 percent of the budget. The chief reasons that receipts from enterprises failed to meet the budgeted figures were the transfer of part of the profits into tax under the second-phase program of substituting tax payment for profit delivery, more profits retained by enterprises, increase in repaid loans, the rise in the prices of some raw and semifinished materials and in the freight rate, and higher production costs. Another contributing factor for the shortfall was that the economic results of the operations of some enterprises were not good enough.

The 1984 final accounts showed a total expenditure of 2,879,580,000 yuan (including spending from the local budget for the year, special appropriations from the central government, and expenditures from extra local financial resources), equivalent to 140.8 percent of the local budget and showing a 31.2-percent rise over the preceding year. The total expenditure exceeded the budgeted figure by a rather big margin mainly for the following reasons: One was that the expenditure budget approved by the Second Session of the Sixth Provincial People's Congress did not include the special appropriations from the central government. In 1984 while the budget was being executed, the central financial authorities made several special appropriations and refunded the energy and transport construction funds to our province, totaling 402.13 million yuan. This amount was equivalent to 19.7 percent of the local budget. The second reason was that in 1984 many cities, prefectures, and counties did fairly well in increasing their revenues, and a total of 350 million yuan was spent from the extra financial resources of various localities. This was equivalent to 17.2 percent of the local expenditure budget. After submission of the required amount of revenue for 1984 to the central government in accordance with the state financial administrative regulations and balancing of the local revenue against expenditure, there was an accumulated surplus of 231.8 million yuan at the yearend.

In general, we achieved fairly good results in executing the 1984 financial budget. This was mainly attributable to the policies of making reforms, opening to the outside world, and enlivening the economy and to the efforts of party committees and governments at all levels to strengthen their leadership over financial work. In compliance with the relevant instructions of the central authorities and in accordance with the guidelines of the resolution on financial budget and final accounts adopted at the Second Session of the Sixth Provincial People's Congress, the financial departments at all levels in our province did the following main tasks:

1. They paid great attention to boosting financial revenue by developing production and raising economical results. In 1984 the gross value of industrial and agricultural production in the province grew 26.5 percent compared with the preceding year, and the total amount of losses suffered by state-owned industrial enterprises declined 41.76 percent. This provided a precondition for increasing financial revenue. In the meantime, the leadership at all levels deemed it an important task to increase revenue and strengthened the work of tax collection and administration. Because of this, there was a fairly big increase in the 1984 financial revenue despite the acute shortages of energy supply and some raw and semifinished materials and despite a greater amount of profit retained by enterprises.
2. They rationally distributed funds and gave priority to supporting agriculture, technological progress, the development of intellectual resources, urban construction and key energy and communications projects. Of the total expenditures in 1984, those for rural production and other operating expenses for agriculture, forestry and aquatic breeding amounted to 361.11 million yuan, an increase of 33.1 percent in real terms over the previous year. Expenditures for financing enterprises' technological transformation and

subsidizing the trial manufacture of new products totaled 313.36 million yuan, an increase of 35.6 percent in real terms over the preceding year. Operating expenses for culture, education, science and public health totaled 856.1 million yuan, an increase of 25.9 percent in real terms over the previous year. In addition, according to incomplete statistics, more than 55 million yuan was raised in 1984 in various sectors and by various means to support education. This fund was used to repair or construct primary and middle school buildings totaling more than 1.58 million square meters of floor space, thereby improving the educational conditions. Expenditures for urban maintenance and construction in 1984 totaled 178.62 million yuan, an increase of 42.4 percent over the previous year. Appropriate arrangements were also made to support our opening to the outside world and other undertakings.

3. They actively carried out reform and correctly handled the distributive relationship between the state and enterprises. In 1984, stress was placed on implementing the second phase of the reform to replace profit delivery by state enterprises with their tax payments. As a result, profits retained by state-owned industrial enterprises increased from 22.7 percent to 30.1 percent of the total profits made. This has enhanced the enterprises' capacity for future growth. The further improvement of the taxation system will also help ensure steady growth in revenue.

In accordance with tax administrative provisions, a number of enterprises and individual entrepreneurs were given tax exemptions or varying degrees of reduced taxes. The categories of costs and operating expenses were appropriately increased to encourage state-owned industrial and commercial enterprises to upgrade their technologies. In an effort to support the growth of rural enterprises, governments at various levels appropriated a portion of their reserve funds to village and town enterprises in the form of low or no interest loans to help them carry out technological transformation and develop production. The fund appropriated by the provincial government alone amounted to 10 million yuan. In addition, village and town enterprises were allowed to repay their production equipment loans from their pre-tax earnings. To promote the readjustment of rural production structure and speed up the development of a commodity-oriented economy, agricultural funds were used predominantly to support diversified economic undertakings and nontraditional production undertakings in rural areas, reversing the past practice of using agricultural funds solely to support crop cultivation. Interest-discount loans were also extended to finance development projects encouraged by the state.

4. They supported the construction of the open cities and personnel training. To support the opening of Ningbo, Wenzhou and Hangzhou cities and create a good environment to attract foreign capital, the province allocated 24 million yuan for infrastructural construction in the three cities. Accountant offices were set up by the province and Ningbo City to provide notary and consultation services for joint ventures using Chinese and foreign capital. Training courses were also set up for cadres in charge of the opening and for financial and accounting personnel of the joint ventures in order to attract specialized personnel for the open cities.



There were still problems in the execution of the 1984 budget. The main problems were: a) The capital construction investment was too big, and the amount raised by localities was too large. b) Our control over the increase of funds spent in consumption during the second half of 1984, and especially during the last quarter, was not strict and vigorous enough. A number of units indiscriminately distributed bonuses, subsidies and goods, spending large amounts of money in an extravagant and wasteful way. c) Administrative and personnel structures were not efficiently controlled. Last year the number of administrative personnel increased by more than 20,000, causing a corresponding increase in various operating expenses and a general, large-margin increase in administration expenditures. In addition, a few localities relaxed their financial supervision and exceeded their authorities in approving tax exemptions and reductions. We need to seriously draw lessons from these experiences and take firm measures to correct the mistakes and prevent their recurrence.

## II. Financial budget for 1985 (draft)

The year 1985 is the last year of the period for the Sixth 5-Year Plan and the first year of the reform of the entire national economic structure with emphasis on the urban economy. To ensure the sustained, steady, and harmonious development of our province's economy and the smooth progress of the economic structural reform, our financial budget has been worked out on the following principles: Great efforts should be made to increase the output of marketable products, raise the economic results of our work, explore more financial resources, and obtain more income so as to continually boost our revenue. We should try to accomplish what is possible and reasonably manage the allocation of funds for various purposes in such a way as to meet the needs of the economic structural reform. Continued efforts should be exerted to support the development of cultural, educational, scientific and public health undertakings, particularly educational undertakings, to support urban maintenance and construction projects as well as key national construction projects, and to raise the people's living standards. In addition, we should pay more attention to improving our financial management, control the scale of capital construction and the amount of consumption funds, and cut administrative expenses in order to maintain the balance between our revenue and expenditures.

The financial revenue target for 1985 that the state has set for our province is 4,986,500,000 yuan, which is 8.9 percent higher than last year's actual revenue. As decided by the State Council, commencing in 1985, in dealing with the financial management of various provinces, autonomous regions, and municipalities, the state has put into effect the system of "apportioning taxes between the central and local authorities, examining and approving local revenue and expenditure budgets by the central authorities, and fixing the responsibilities of each level." Accordingly, the expenditure budget of our province is set at 2,683 million yuan (which does not include the central government's special appropriations and the extra financial resources in various localities). This exceeds last year's expenditure

budget by 638 million yuan, or a 31.2 percent increase. An essential breakdown of the expenditure budget is as follows: [following figures, totalling 2,243.76 million yuan, are as published] appropriation for capital construction amounts to 239 million yuan; spending for technological upgrading of enterprises and development of new products 148.2 million yuan; support for rural production work and operating expenses for agricultural, forestry, and water conservancy projects 251.05 million yuan; operating expenses for cultural, educational, science, and public health undertakings 916.3 million yuan; operating expenses for industrial, communications, and commercial undertakings 46.11 million yuan; pension and relief funds 53.50 million yuan; administrative expenses 392.6 million yuan, showing a 31.6 percent increase; and urban maintenance and construction expenses 197 million yuan.

The total financial expenditures of our province, including the budgeted expenditures, special appropriations from the central government, and extra local financial resources, are expected to reach 3.15 to 3.2 billion yuan, or about 10 percent more than last year's actual expenditure. The rate of increase in operating expenses for cultural, educational, scientific, and public health undertakings and urban maintenance and construction expenses are expected to be higher.

In formulating the 1985 revenue and expenditure budgets, we have not only considered the positive factors for developing production, increasing economic benefits, and boosting revenue by raising output, but also taken into account the changes that may be brought about by the economic structural reform. Therefore, we have tried to ensure the progress of work on key projects and, at the same time, given consideration to the needs of all other work, and tried to take the initiative to meet these needs. In executing the budgets, we will, of course, meet with some unexpected problems. For this reason, we should, on the one hand, see the various positive factors and have full confidence in implementing the budgets successfully. On the other hand, we should soberly see the difficulty of our tasks and strive to overfulfill the revenue budget so as to guarantee that we can meet the needs of various expenditures. To this end, attention should be paid to the following work:

1. Continued efforts should be made to carry out the reform of our financial and taxation systems and to ensure that the work of restructuring the economy is progressing smoothly. This year, based on the actual situation and acting within the limits of our authority, we should continue to grasp the second-phase work of substituting tax payment for profit delivery, make further efforts to invigorate the big and medium enterprises, and put into practice in a planned and step-by-step manner a floating wage system in industrial enterprises linking the total amount of wages with the economic results of operations. At the same time, it is imperative to strengthen investigations and studies and to further improve the financial and taxation systems so as to provide favorable conditions for the reform of the economic structure focusing on the urban economy.



2. Improve economic performance, increase financial receipts, and make special efforts to improve taxation work. We should exert great efforts to eliminate deficits and increase financial receipts by improving economic performance--which is the central task--and by improving business management and economic accounting. We should intensify the propagation of tax laws until they are deep-rooted among the public. All units and individuals must do their work according to law. They must never exceed their authority nor make unauthorized decisions to cut taxes. We must intensify the training of taxation workers, reinforce the manpower on the taxation front, and step up the training of incumbent staff. Efforts must be made to improve the taxation system and management of tax collection, especially management in the sphere of commodity circulation. All collective and individual businesses must establish and improve their accounting system and pay taxes to the state promptly and fully according to law. We should promote coordinated economic development by giving full scope to the economic leverage role of taxation.

3. Strictly control the size of capital construction and consumption funds, and conserve administrative expenses in order to guarantee the needs in reforms. The size of this year's capital construction must be strictly controlled in accordance with the guidelines set forth in the State Council's circular. The amount of self-raised funds for capital construction projects must fall within the prescribed scope, otherwise the government, in addition to stopping the allocation of funds for them, will also impose an additional construction tax on them, and the bank will also suspend the extension of credit to them. One's ability must also be considered in raising funds for projects not under state control. By no means should any project be launched unscrupulously. Illegitimate financial sources must be firmly rejected. We must firmly follow the guidelines set forth in the State Council's "Circular on Conserving Administrative Expenses" and take effective measures to cut down administrative expenses. We should strictly control the establishment of organs, and the authorized size of staffing. Except for special cases authorized by the state, in principle, no additional new administrative personnel will be appointed this year. We should also reduce the number of meetings, and hold short and small meetings. Moreover, we should strictly enforce the system of approving meetings. Control over appropriations should be tightened; by no means should money be spent without control. Expenses for all types of purchases and meetings should be conserved as much as possible in accordance with the principle of economization. There should absolutely be no reckless issuance of bonuses and allowances--in cash or in kind--in violation of state regulations. Administrative expenses of enterprises and institutions should also be managed accordingly. We should, in accordance with the State Council's "Circular on Strictly Controlling Group Purchasing Power," properly guard the process of examining and approving group purchasing power.

To keep up with the need of opening to the outside world, we should give the necessary financial support to the open cities, continue to train accounting and taxation workers who can deal with foreigners, continue to provide consultative service on foreign economic development, and participate in all kinds of economic research.

4. Enforce financial and economic discipline, and firmly check all kinds of unhealthy practices. In accordance with the instructions of the party Central Committee, the State Council, and the provincial party committee, we must adopt economic, administrative and legal measures to stop all types of unhealthy practices. We must heavily rely on people's representatives and people of all walks of life to exercise supervision, strictly handle all cases of lawlessness, and handle the serious ones according to law. Departments in charge of financial, taxation, banking and auditing work, commodity prices, and industrial and commercial businesses must operate in close coordination with each other, and form an effective supervisory system to exercise joint supervision.

We must continue to attend to financial and taxation work, support and enhance the successful development of various projects of reform, work for a sustained, steady and coordinated economic development and constant improvement of economic performance, and strive to make this year's budget a complete success.

CSO: 4006/851

FINANCE AND BANKING

PRC TAKING MEASURES TO HALT TAX EVASION PROBLEMS

HK100550 Beijing CHINA DAILY in English 10 Aug 85 p 1

[Text] China's tax departments have been urged to tighten control over tax collection, clamp down on evasion and boost state revenues.

Despite improvements in control by local authorities, evasion is still a "severe" problem, said Jin Xin, taxation director of the Ministry of Finance.

The State Council has instructed tax departments to collect an extra 12 billion yuan this year to cover spending, Jin told national taxation meeting which closed in Beijing on Wednesday.

He announced that China's tax revenue amounted to 84.8 billion yuan in the first six months of this year--56 percent of the planned annual total.

The half-yearly revenue was 19 percent up on the same period last year, he said.

Jin said tax departments would launch a national crackdown on tax evaders this month. Meanwhile, publicity and education about the tax system will be promoted nationwide to make people realize the importance of handing tax to the state, he said.

Violators of tax laws will be punished and any organization which authorises reductions in the amount of tax an enterprise pays, without proper state approval, will be corrected.

The director called for improvements in the management of tax departments.

Equal emphasis should be placed in taxation work on domestic enterprises, joint ventures, state-owned enterprises and collectively-owned ones, he urged.

Jin said a comprehensive tax system should be established in departments throughout the country while management power should be further centralized.

Governments at no levels should interfere with the rights of taxation departments and taxation officials, he said.

CSO: 4020/332

FINANCE AND BANKING

QINGHAI BANKS OUTLINE CREDIT CONTROLS, ARRANGEMENTS

HK050257 Xining Qinghai Provincial Service in Mandarin 2330 GMT 4 Aug 85

[Excerpt] The provincial people's bank, industrial and commercial bank, and agricultural bank recently made arrangements for the focal points of credit work in the second half of the year. The people's banks at all levels in the province must strictly control, according to the stipulated figures, loans for investment in fixed assets, for township and town enterprises, for science and technology development, and for collective industrial and commercial enterprises. They must temporarily stop dealing in trust loans.

In issuing floating capital loans in the second half of the year, priority must be given to support the production of light and textile products in great demand in the markets; to the production of items in short supply such as energy, communications, and building materials; to scientific research and development of new products; to state-owned commerce units in shipping in best-selling goods from outside, to build up stocks and increase the variety of goods; and to the development of tertiary industry and to grain enterprises in embarking on a new path of procurement, processing, and sales.

The agricultural banks at all levels must control the size of loans in the second half of the year. In particular they must strictly control loans for investment in fixed assets and loans to township and town enterprises. They should actively organize the taking of deposits, and get a good grasp of recalling expired loans. They must ensure the supply of capital for the purchase of agricultural, animal husbandry, and sideline products.

CSO: 4006/847

FINANCE AND BANKING

BRIEFS

GUANGDONG: JAN-JUN REVENUE--The revenue situation for our province in the first half of this year was good. According to statistics compiled the provincial finance department, the quota for revenue in the whole province for the first half year--3,565 million yuan--was fulfilled. This was 660 million yuan more than in the same period last year, an increase of 29 percent. The revenues of 14 cities and prefectures throughout the province in the first half year all increased. The revenue of Guangzhou, Shenzhen, Zhuhai, and Foshan cities increased more than that of the others. In addition, industrial and commercial taxes greatly increased. The tax paid by industrial enterprises increased by 30.17 percent while the tax paid by commercial, communications, catering, and service trades increased by 26.7 percent. [Text] [Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 1 Aug 85 HK]

CSO: 4006/847

MINERAL RESOURCES

BRIEFS

XINJIANG VERMICULITE LODGE--Urumqi, 8 Aug (XINHUA)--Geologists have verified China's biggest vermiculite deposit in Yuli County in the Xinjiang Uygur Autonomous Region, according to the regional geological bureau. The vein is 3,000 meters long, 400 to 600 meters wide and 20 meters thick. The deposit is estimated at 7 million tons, about 80 percent of China's total, and the grade stands at 50 percent. Vermiculite is used as building material and in the metallurgical industry. [Text] [Beijing XINHUA in English 0702 GMT 8 Aug 85 OW]

DIAMOND XINJIANG DISCOVERY--Beijing, 7 Aug (XINHUA)--A diamond weighing 0.221 kt was recently found in Moyu County in the Xinjiang Uygur Autonomous Region. The diamond was found only 500 meters from the spot where a 1.2 kt diamond was found last year. The finding of the diamonds in less than 2 years has encouraged geologists to look for a diamond pipe in the area. The area has been producing jade and gold since the Tang Dynasty (618-907) but no diamond production has been recorded. [Text] [Beijing XINHUA in English 0228 GMT 7 Aug 85 OW]

NEW SODA EXTRACTION TECHNIQUE--Zhengzhou, 6 Aug (XINHUA)--China's largest sal ammoniac soda mine, in Henan Province, will soon go into large-scale production with the aid of a new technique. The Wucheng mine in Tongbai County has an industrial reserve estimated at 35 million tons in a 4.66-square-kilometer area. The deposit is a deep one and not easy to mine. Scientists at the Henan Provincial Chemical Institute and the Henan Provincial Chemical Industry Design Institute have developed a method to dissolve the sal ammoniac soda before pumping it out. With this method, about 3,000 tons of quality soda have been extracted so far. Sal ammoniac soda is an important material for the chemical, metallurgical and electronics industries. [Text] [Beijing XINHUA in English 1546 GMT 6 Aug 85 OW]

CSO: 4020/332

INDUSTRY

WUHAN'S RURAL, SMALL TOWN ENTERPRISES DEVELOPING QUICKLY

Wuhan CHANGJIANG RIBAO in Chinese 5 Jun 85 p 2

[Article by Qing Xian [4440 0341] and Liu Youqi [0491 0671 0796]: "Open Up Gate Between City and Countryside and Develop New Industries: Wuhan's Rural and Small Town Enterprises Develop Quickly"]

[Text] The developing rural and small town enterprises in Wuhan have begun to emphasize raising economic results. At present, Wuhan's rural and small town enterprises have mushroomed to more than 37,000, employing more than 338,000 people. By the end of April, these enterprises turned out a total output value of 391 million yuan, registering a 147 percent increase over the same period last year.

This year the suburban counties of Wuhan put the emphasis of enlivening the rural economy on developing rural and small enterprises, making full use of local resources to develop much-needed fodder industry, food industry, building and building materials industries, communications and transportation, etc. While expanding the scope of these industries, the suburban counties stress product quality and desired economic results, striving to turn out more with less investment. The characteristics of the rural and small town enterprises this year are as follows:

--Go all out to develop without restraint and maintain that all five levels embark on development. Since the beginning of this year, the suburban counties have opened all avenues to launch more than 1,000 new enterprises in various ways on multiple levels, employing 122,000 people. Among them, jointly-run and household-run enterprises increased by 80.5 percent and the number of workers employed by them increased by 55 percent.

--Integrate city with countryside and bring into play the advantages of the suburban areas. The city's industrial departments, taking support of rural and small town enterprises as their main task, vigorously spread products and projects to the suburban counties. Urban-rural cooperative projects now number 342, turning out an output value of 284 million yuan.

--Pay attention to bringing in talent and accelerating technological progress. The suburbs aim at the city's powerful science and technology market and bring in talent, technology and information through many channels, strive to turn



rural and small town enterprises into experimental bases for scientific and technological research units and universities and colleges, and in return turn the latters' scientific and technological achievements into rural and small town enterprises' products and economic benefits. Using technological consulting, product design, transfer of research results, and employment and contract advertising, as well as other forms, more than 2,000 technological and management personnel entered rural and small town enterprises through free combination on the basis of mutual benefit.

--Adhere to reform and strengthen enterprises' vitality. Convert the originally state-run rural and small town enterprises to individual or collective operations and generally promote the "one contract and five changes" to return power and benefits to the people. Improve the rural and small town enterprises' abilities at management, technology, and development as well as ability to meet contingencies. A recent unified examination by the city shows that 35 out of the 42 comparable products turned out by the rural and small town enterprises registered increased output and quality.

12974

CSO: 4006/830

CONSTRUCTION

GUANGDONG BEGINS CONSTRUCTION OF CEMENT PLANT

HK130417 Beijing CHINA DAILY in English 13 Aug 85 p 3

[By staff reporter]

[Text] Guangzhou--A giant cement plant is to be built in a bid to ease the shortage of high quality cement in Guangdong Province.

Work begins on the 400-million-yuan project this week; it is expected to open in 1988, according to city officials.

The plant, with an annual production capacity of 1.2 million tons of high quality cement will be equipped with up-to-date technology imported from Denmark.

The funds needed for the project were raised by the city government, which has been concerned about the drastic shortage of quality cement for the construction of high-rises, bridges and highways.

The plant, on the bank of Bajiang River in Huaxan County, will be the largest in the province with a high degree of automation and efficient energy consumption. Control of the production process will be computerized.

CSO: 4020/332

CONSTRUCTION

BRIEFS

NEW BEIJING WATERWORKS--Beijing Municipality prefulfilled its construction project for the Tiancunshan waterworks on 28 June and put the waterworks into operation. The waterworks is located in the western suburb of the municipality and occupies 120 mu of land. The water resources for the waterworks are from the Miyun and Guanting reservoirs in the municipality, and its daily capacity of water supply is more than 170,000 tons, accounting for the 12.4 percent of the total daily water supply provided by all waterworks in the municipality. [Summary] [Beijing BEIJING RIBAO in Chinese 29 Jun 85 p 1 SK]

ANHUI WIRE ROD MILL PROJECT--Hefei, 9 Aug (XINHUA)--Work has started on a high-speed wire rod mill, the first of its kind in China. The mill, with equipment imported from West Germany, will be part of the Maanshan Iron and Steel Company in Anhui Province. The mill will be able to roll 100 meters of wire rods per second, 500 to 600 percent more than conventional mills. The annual capacity will be 400,000 to 500,000 tons of rods with diameters between 5.5 mm and 16 mm. Maanshan is one of the 10 major iron and steel enterprises in China, and wire rods are in acute short supply. The installation will be completed in early 1987. [Text] [Beijing XINHUA in English 0858 GMT 9 Aug 85 OW]

CSO: 4020/332

FOREIGN TRADE AND INVESTMENT

VICE MINISTER WEI YUMING ON SINO-U.S. TRADE

OW100650 Beijing in English to East and South Africa 1700 GMT  
9 Aug 85

[Text] Chinese Vice Minister of Foreign Economic Relations and Trade Wei Yuming held talks with the U.S. Congressional delegation on Friday. The American delegation was led by Sam Gibbons, chairman of the Trade Subcommittee of the House Ways and Means Committee. Radio Beijing's (Hua Huichao) reports:

Wei Yuming said: The trade relations between China and the United States have progressed well in recent years, even though China has accumulated a \$13.5 billion trade deficit with the United States since 1973 and other problems are beginning to emerge. The vice minister said the textile and apparel (?trade enforcement) bill now being considered by the U.S. Congress will affect the overall trade between the two countries if it is approved. The bill will cut China's textile and garment export quotas to the United States this year by 56 percent.

Wei Yuming said: Reductions in China's exports will affect its ability to pay for imports and this would hamper sales of American goods to China. He hopes that the U.S. Congress will consider this measure carefully and not pass the bill. The vice minister appreciated economic cooperation between China and the United States. He said: Many American companies have come to invest in oil, coal, machinery, and food processing in coastal and inland areas of China. He said this cooperat-on has a very bright future and will further promote bilateral economic and trade relations. Wei Yuming said China is the biggest developing country while the United States is the biggest developed one. He feels that both sides should make concerted efforts to combine their strengths to quadruple the trade between them by the turn of the century.

Mr Gibbons said: The trade between the two countries is at an infant stage now and this exchange of views would help trade grow.

CSO: 4020/330

FOREIGN TRADE AND INVESTMENT

NPC VICE CHAIRMAN URGES OPENING TIBET BORDER

OW231720 Beijing XINHUA in English 1435 GMT 23 Jul 85

[Text] Lhasa, 23 Jul (XINHUA)--People living in the border areas of the Tibet Autonomous Region should be encouraged to engage in tourism and trade with neighboring countries, Ngapoi Ngawang Jigme, vice-chairman of the National People's Congress, said here last Sunday.

"Tibetan people should be able to cross the borders to carry on trade, and people from neighboring countries should be able to enter Tibet for the same purpose," he added.

He said this while discussing the question of further opening the borders with officials from Ngari Prefecture which borders on Nepal and India, and receives more than 200 foreign Buddhist pilgrims every year.

"Apart from state allocation, local governments should encourage individuals to build hotels, bars and teahouses along the main roads," he said.

The vice-chairman, a Tibetan himself, came to Lhasa from Beijing to attend the current session of the Regional People's Congress of which he is the chairman.

CSO: 4020/330

FOREIGN TRADE AND INVESTMENT

GANSU INTRODUCES TAX BREAKS FOR FOREIGN FIRMS

HK060215 Beijing CHINA DAILY in English 6 Aug 85 p 2

[Text] Gansu Provincial Government has introduced a series of regulations offering preferential treatment to overseas investors who set up businesses there.

The preferential treatment was detailed in the newspaper ECONOMIC INFORMATION.

It includes:

--Guaranteed independence for business run by investors. Joint ventures, co-operative and solve ventures will enjoy autonomy in matters of personnel, finance, materials, production, supply and marketing. They will have a free hand in development of operations, accounting, profit distribution, hiring and firing of employees, and the salary system.

--Joint ventures expected to run for more than 10 years will be exempt from taxes during the first two years and will pay 50 percent of taxes from the third year. Taxes will then be levied on a sliding scale reaching the maximum after 10 years.

--Investors will be exempt from import duties and composite industrial and commercial taxes if they import the production and management equipment and building materials for joint ventures; import raw materials, components, spare parts, and packaging materials for export of finished products; and import vehicles, office facilities and furniture for their own use.

--Investors will be allowed to sell their products on the home market if there is need domestically.

--Fees for land use will be waived during construction if the fees for joint and co-operative ventures are lower than 50 percent of the country's average level. Land used for projects in culture and education, scientific research, medicine and health, and social and public facilities will be free.

--Investors of sole ventures will retain all profits after taxes and fees. Investors' income will be convertible to foreign currency for remittance abroad.

FOREIGN TRADE AND INVESTMENT

OFFICIAL WARNS OF TAX EVASION BY FOREIGNERS

OW311652 Beijing XINHUA in English 1446 GMT 31 Jul 85

[Text] Beijing, 31 Jul (XINHUA)--Attention should be paid to instances of tax evasion by some foreign enterprises and individuals involved in production and trade in China, according to a high-ranking Chinese taxation official.

Lin Rongsheng, vice-director of the General Taxation Bureau of the Ministry of Finance, made this statement at a national meeting on taxation now in session here.

To tax foreign businesses in accordance with China's taxation laws is not only a matter of ensuring the state its due revenue, but what is more important, it is a matter of safeguarding the right of taxation of a sovereign state, he said today.

In his speech he also criticized some Chinese units for violating tax laws concerning foreign businesses.

The transgressions include unwarranted announcement by some localities of taxation privileges similar to those enjoyed by the 14 coastal cities, unauthorized permission for tax breaks for Sino-foreign joint ventures, cooperative enterprises and enterprises with sole foreign capital.

The right to decide on tax reduction or exemption is the province of the State Council, and clauses concerning taxation in a contract are invalid without the approval of the taxation authorities, Lin said.

Since 1980, Lin noted, China has announced three series of tax legislation concerning foreigners--for Chinese-foreign joint ventures, for individuals and for foreign enterprises.

China has already signed agreements on avoidance of double taxation with a number of countries including Japan, Britain, the United States, France, Belgium and Federal Republic of Germany. Negotiations with 14 other countries are under way or will start soon.

These have not only helped safeguard the economic rights and interests of the country, but also helped protect the interests of foreign businesses and promote China's economic and technical exchanges and cooperation with foreign countries, Lin said.

China's income from taxation of foreign businesses and individuals increased by 140.7 percent in 1984 over 1983, and by 168.3 percent in the first six months of 1985 over the same period of last year.

CSO: 4020/330



FOREIGN TRADE AND INVESTMENT

PRC CONSTRUCTING NEW 'FOREIGNERS' VILLAGE' IN NORTHWEST BEIJING

HK090251 Beijing CHINA DAILY in English 9 Aug 85 p 2

[By staff reporter Zhang Wenzhong]

[Text] A new "foreigners' village" is under construction in northeast Beijing to provide modern conveniences to the mushrooming numbers of alien residents in the capital.

The Beijing Guangming Industry and Commerce Company Ltd, an equity joint venture between the Tokyo Corporation of Japan and the Beijing General Corporation of Agriculture, Industry and Commerce, is building a compound of 136 villas about 400 metres from the Great Wall Hotel.

Xu Lixu, president of the Japan Tokyo Corporation told CHINA DAILY the compound will include tennis courts, a swimming pool, a children's playground and a 13-storey office building.

The compound will cover an area of 4.6 hectares. Total investment is 7 billion Japanese yen, 70 percent of it coming from the Japanese company.

Xu said the contract was signed early this year. Groundwork is underway, and the first 36 villas are expected to be completed before October.

The villas will be in both Western and Japanese styles. The two and three-storey designs will offer floor spaces ranging from 110 to 140 square metres.

Xu, 62, is believed to be the first overseas Chinese in Japan to invest in his homeland. He was born in Shandong Province and went to Japan at the age of 18. He now runs two Chinese restaurants in Osaka and also operates billiard rooms.

Xu started China business in 1983 with a joint venture restaurant in Shenyang, capital of Liaoning Province. Two more joint venture

hotels of his are under construction in Dandong and Dalian cities, also in Liaoning Province. Xu invested 1 billion in the three projects.

"Most overseas Chinese in Japan take a wait-and-see attitude toward China and hesitate putting money here," Xu said: "But I'm bold and confident.

"China has opened some cities to the outside world, but I think they should be opened much wider," he said.

Xu has invited more than 100 Chinese Government officials and businessmen to visit Japan in recent years.

"I think the Chinese should know more about the West in order to speed up the 'Four Modernizations,'" he said.

Xu said he will manage the new foreigners' village in a Western style.

The villas will be built with interior components manufactured in Japan. When shipped to China, the components take only three hours each to install in the villas.

The office building, with a floor space of 10,000 square meters, will be completed by the end of the next year.

CSO: 4020/3030

FOREIGN TRADE AND INVESTMENT

CHINESE TRADE DELEGATION TO ARRIVE IN INDONESIA 9 AUGUST

HK061550 Hong Kong AFP in English 1448 GMT 6 Aug 85

[Text] Jakarta, 6 Aug (AFP)--A 43-member Chinese trade delegation is due to arrive in Jakarta on Friday for a 10-day visit, the Indonesian Chamber of Commerce and Industry (Kadin) announced today.

The arrival date and number of delegates were confirmed by the China Council for the Promotion of International Trade (CCPIT) in a telex received by Kadin today, a spokesman told newsmen.

The Chinese group will be returning a visit to China by a 125-member Indonesian trade delegation headed by Kadin President Sukamdani Gitosarjono [name as recieved] from 27 July to 3 August.

The two states agreed last month to resume direct trade after 18 years of only indirect trading. Indonesia froze diplomatic and trade relations with China in 1967, accusing China of complicity in an abortive communist coup two years earlier.

The Chinese delegation, headed by CCPIT Chairman Wang Yaotting will visit an Indonesian products exhibition now being mounted in Jakarta, and meet their counterparts to firm up tentative trade commitments made during the Kadin visit to China.

The Kadin official said the Chinese side had pledged to buy 440 million dollars' worth of Indonesian commodities and products.

Meanwhile, the first direct export of Indonesian plywood, totaling 4,000 cubic meters, will be shipped to China at the latest next October, ANTARA NEWS AGENCY quoted a Kadin executive as saying.

The shipment is not part of the 150,000 cubic meters of plywood the Chinese had listed to buy from Indonesia during the Kadin visit, Kadin timber section Chairman Mr Abusaeri [name as received] told the agency.

Other commodities the Chinese were reported to have offered to buy from Indonesia include 250,000 tons of cement, 25,000 tons of fertilizer, 75,000 tons of sawn timber, 5,000 tons of rattan, 60 million dollars' worth of textiles, 75,000 tons of rubber, 6,000 tons of coffee, 3,000 tons of cocoa and a monthly 5,000 tons of concrete reinforcing rods, according to the Kadin official.

CSO: 4020/330

FOREIGN TRADE AND INVESTMENT

BRIEFS

GRANTS BY FOREIGN STATES--Beijing, 6 Aug (AFP)--China has received grants totalling almost 250 million dollars from foreign states since 1981, the international business daily, GUOJI SHANGBAO, said today. Japan was the leading donor, with 90 million dollars for such projects as the Sino-Japanese friendship hospital in Beijing the daily said, followed by Canada with 61.5 million. Australia had provided 42 million, West Germany 35 million, Norway 12 million and the European Economic Community (EEC) 4.7 million dollars. China accepted grants in the early 1950's, but the practice was suspended over the Maoist policy of "relying on your own forces." Foreign grants were once more accepted in 1981, under senior leader Deng Xiaoping's policy of opening up the economy. [Text] [Hong Kong AFP in English 1240 GMT 6 Aug 85 HK1

CSO: 4020/330

SPECIAL ECONOMIC ZONES

SHENZHEN BUILDING SCIENCE, TECHNOLOGY CENTER

OW312033 Beijing XINHUA in English 1625 GMT 31 Jul 85

[Text] Shenzhen, July 31 (XINHUA)--A foundation stone was laid on Tuesday for a scientific and technological research center in the Shenzhou Special Economic Zone, Guangdong province.

The center, which will eventually cover 3.2 sq km, will be a place of scientific research and education focusing on microelectronics, optics, precision machinery and new materials.

Jointly sponsored by Shenzhen City and the Chinese Academy of Sciences, a corporation was set up yesterday to supervise the construction, which will include facilities for sino-foreign joint ventures.

Zhang Yiyi, general manager of the corporation, said preferential treatment will be granted to imported advanced technology which yields major economic benefits, according to the interim regulations of the economic zone.

The center is also an attempt to integrate the work of the Chinese Academy of Sciences with production, said Zhou Guangzhao, the academy's vice-president. He pledged that the more than 40,000 scientists and technicians of the academy would endeavor to build the special economic zone into an export-oriented and technology-intensive one.

Fang Yi, member of the Political Bureau of the Communist Party of China, wrote an inscription for the center, and state councillor Gu Mu sent a letter of congratulations on the occasion.

CSO: 4020/315

SPECIAL ECONOMIC ZONES

BRIEFS

GUANGDONG OPENS OFFICIAL PRESS OFFICE--Shenzhen, 8 Aug (XINHUA)--  
Authorities in Shenzhen, Guangdong Province, one of China's four  
special economic zones, have set up an official press office to  
strengthen their ties with media. The office will hold press  
conferences, provide an information service for Chinese and  
foreign reporters, arrange interviews and offer other assistance  
to journalists on request. Seven officials are staffing the of-  
fice, which is headed by former GUANGZHOU DAILY Editor Zou  
Erkang. [Text] [Beijing XINHUA in English 1501 GMT 8 Aug 85 OW]

CSO: 4020/330

LABOR AND WAGES

VICE MINISTER ON PROVIDING JOB OPPORTUNITIES

OW100829 Beijing XINHUA in English 0757 GMT 10 Aug 85

[Text] Beijing, 10 Aug (XINHUA)--Major efforts are to be devoted to developing tertiary industry in order to provide more job opportunities and to make people's lives more convenient.

This was explained by He Guang, vice-minister of labor and personnel, in an article carried in the latest issue of the magazine, CHINA LABOR.

An average of seven million urban young people a year were given jobs between 1978 and 1984, and in China's 30-odd cities and municipalities, the overwhelming majority of people are now employed.

However, he said, during the Seventh 5-Year Plan (1986-1990), China will still face a challenge of finding jobs for about six million people a year. Besides, by 1990, 100 million rural workers will be on the non-agricultural labor market.

Labor-intensive tertiary industry is ideal for mopping up surplus labor. It covers commerce, finance, insurance, transportation, communications, tourism and other service trades, and needs little investment but yields quick economic results.

But tertiary industry at present only has 15 percent of the nation's total employed, and creates only 20 percent of the nation's total production value, he said.

Turning to ways of expanding employment, He Guang said that the government's labor and personnel departments have been finding jobs for people according to the state overall plan. The state is also encouraging people to engage in collective-run enterprises and private businesses.

By the end of 1984, 32 million people were working in collective-run enterprises, and another three million were self-employed. The figures are 57 percent and over 2,000 percent increases, respectively, compared to 1978, he said.



The vice-minister draws attention to the country's 27,000 labor service companies which organize, train, and regulate surplus social labor, functioning both as economic entities and administrative organs.

By the end of 1984, the labor service companies across the country had trained and found jobs for 6.2 million people, and set up 160,000 enterprises and services which have turned out a total value of 20 billion yuan.

Labor service companies are taking care of more than one million workers, and many urban companies have made their way to rural areas as the surplus rural labor force shifts to industrial fields, he said.

CSO: 4020/332

LABOR AND WAGES

ARTICLE EXPLORES WAGE SYSTEM REFORM QUESTIONS

HK090600 Beijing GUANGMING RIBAO in Chinese 20 Jul 85 p 3

[Article by Xiang Qiyuan [7309 0796 3293]: "Several Theoretical Questions on Wage System Reform"]

[Text] The Principle of Distribution According to Work Under the Situation of a Socialist Commodity Economy

The distribution of individual consumer goods in a socialist society is carried out in accordance with the principle of distribution according to work. This was put forward by Marx in "Das Kapital" and the "Critique of the Gotha Program." According to his assumptions, in the preliminary stage of communism, the productive forces are so highly developed that the means of production are all owned by the whole society, and the relationship between commodities and money has been abolished. The labor of each worker is direct social labor and is not reflected by value. In connection with the amount of labor (with various necessary deductions) given by each worker for society, each worker is distributed a corresponding amount of labor coupons for his individual consumer goods. Therefore, we can summarize the essential features of the principle of distribution according to work into the following points: First, in terms of distribution relations, it is a reflection of the public ownership of the means of production by society. Therefore, we should distribute in a centralized way throughout the society. Second, it requires us to take the amount of labor provided by the workers for society as the only criterion for distribution and to exclude any non-labor factor which influences the income of the worker. Third, the principle of exchange for an equivalent amount of labor is still in force. However, here the principle means that a certain amount of labor will bring about an equivalent return, rather than meaning an exchange of commodities at equal value.

China is still in the preliminary stage of the socialist society, and the degree of socialized production is not high. Not only has it not realized public ownership of the means of production by society, but it has non-socialist economic elements in addition to two public ownership systems. The socialist economy is a planned commodity economy. Relatively speaking, enterprises owned by the whole people are independent commodity producers. Therefore, in order to better implement the principle of distribution according to work, we must uphold basic Marxist theory. In light of China's

actual conditions, we must seriously study the specific method of distribution under socialist commodity economic conditions. In order to solve this problem, I believe that we should first have a clear idea about the role of the law of value in the distribution of individual consumer goods.

At the present stage in China, the economy under the system of ownership by the whole people occupies the dominant position. Together with the economy under the system of ownership by collectives in the urban and rural areas, socialist public ownership takes absolute predominance in the national economy. This, therefore, determines that in the distribution of individual consumer goods, the principle of distribution according to work still plays the major role. At the same time, the socialist economy is also a planned commodity economy based on public ownership. Inevitably, the basic law of a commodity economy--the law of value--will perform a readjustment function in the national economy. Therefore, in the distribution of individual consumer goods, we cannot simply emphasize the principle of distribution according to work and neglect the law of value. I believe that the law of value restricts the distribution of individual consumer goods in at least two areas. First, under commodity economy conditions, the values of products of enterprises owned by the whole people must be realized through exchanges at equal value. Therefore, the individual income of workers of enterprises owned by the whole people cannot but be linked with the business results of their units. In some enterprises, under the centralized leadership of the organization, the staff follow a division of labor and "cooperate" with each other in a better way. Hence, labor productivity is rather high and the time spent by an individual worker on a product is shorter than that of necessary labor spent by society. In some enterprises, the "cooperation" is poor, the labor productivity is low, and the time spent by an individual worker on a product is longer than that of the necessary labor spent by society. In the former case, the amount of collective labor of an enterprise recognized by society through exchanges at equal value will be greater than the total amount of individual labor actually aggregated by the enterprise's staff and workers. Its specific manifestation is that the enterprise earns more profits and the collective welfare and individual income of its staff and workers are also relatively large. In the latter case, the amount of collective labor of an enterprise recognized by the society through exchanges at equal value will be smaller than the total amount of individual labor actually aggregated by the enterprise's staff and workers. In other words, a part of its labor is not recognized by society. Its specific manifestation is that the enterprise earns less profits or even incurs a loss, and its workers and staff also have a reduced income. The above cases demonstrate that the individual income of staff and workers should be directly linked to the operational results of an enterprise. If an enterprise runs well, its staff and workers will have more income; if an enterprise does not run well, its staff and workers will have less income. This is a result of the roles of the law of value, the law of supply and demand, and other factors in the distribution of individual consumer goods.

Second, in the stage of socialism, the remuneration for workers is not labor coupons but currency. Workers must use currency to buy consumer goods at

the market. There is thus a difference between the nominal wages and real wages as well as a question concerning the relations between wages and commodity prices. In this regard, the role of the law of value in the distribution of consumer goods is more obvious.

Of course, we should not only emphasize the law of value alone to the exclusion of the principle of distribution according to work. The aim of this wage reform is to practice a structural wage system among functionaries of government organs and institutions, which is more in line with the principle of distribution according to work than the previous grade wage system. The wage reform being carried out among staff and workers of enterprises under the system of ownership by the whole people has changed the "eight-grade wage system." The state only controls the total wages of an enterprise and the floating proportion of the total wage in the enterprise's economic effectiveness, leaving the enterprise to decide the form of remuneration for the labor of its staff and workers. This method conforms to both the law of value and the principle of distribution according to work. On the one hand, this method can ensure the macro control of the state over consumption funds, so as to enable the growth of consumption funds and the growth of the average wages of staff and workers in enterprises under the system of ownership by the whole people. This is not to exceed the growth of labor productivity and national income and is to reflect the principle that the distribution according to work among staff and workers of enterprises under the system of ownership by the whole people should be carried out in a unified way in society. On the other hand, it can expand enterprises' decisionmaking power in distribution, allowing them to practice various forms of remuneration for workers and staff in light of their own characteristics and allowing them to better implement the principle of distribution according to work.

In brief, many economic laws are playing roles in a socialist society. As far as the sphere of distribution is concerned, the law of distribution according to work and the law of value are playing decisive roles, but other laws are also playing roles. Just as Engels pointed out in bringing to light the law governing average profit rates, the roles of the laws governing economics are always interrelated. Under the situation of a socialist economy, the distribution of individual consumer goods should be restricted by a series of economic laws, in particular by the combined roles of the law of distribution according to work and the law of value.

#### The Theoretical Basis for Having Different Wage Systems Among Workers and Staff of Enterprises Under the System of Ownership by the Whole People and Government Functionaries

In the wage system of our country, should the wage system of workers and staff of enterprises under the system of ownership by the whole people be different from that of functionaries of government organs and institutions? If so, what is the theoretical basis for this? Economists hold varied opinions. Some comrades propose that the principle of distribution according to work advocated by Marx can only be applicable to workers in production departments. The salaries for government functionaries belong to the part

deducted from general social products and do not fall into the scope of distribution according to work. Because the principle of distribution according to work is being practiced among workers of all trades and professions across the country and job transfers are often made between functionaries of state organs and workers in production departments, the salary levels of government functionaries correspond with the wage levels of productive laborers. Comrades with divergent views expound and prove from every angle that the principle of distribution according to work is equally applicable to government functionaries. Although the specific remuneration forms are different, it does not mean that the distribution principle should be different. Basically, I agree with the latter viewpoint. However, I think that we should notice both the similarities as well as the dissimilarities between the two without neglecting either of them.

Judging from the nature of the distribution pattern of individual consumer goods or the nature of economic relations reflected by this pattern, workers and staff in enterprises under the system of ownership by the whole people and government functionaries should all belong to the realm governed by the principle of distribution according to work.

First, any economic law has its own economic conditions playing roles. As an important law governing the socialist distribution of individual consumer goods, the most fundamental basis in order for the law of distribution according to work to play its roles is public ownership of the means of production. It can be said that this law is bound to play roles in any place where the socialist public ownership is established. Therefore, distributing individual consumer goods to workers in production departments based on the socialist public ownership and to workers in nonproductive departments should all be governed by the law of distribution according to work.

Second, in a socialist society, workers in production departments and those in nonproductive departments are only different in regard to the division of labor. As far as the nature of their labor is concerned, they are all beneficial or even indispensable to society. Therefore, they should be paid proportional remuneration in light of their contributions to society. Marx once said: "Any nation will become extinct if it stops working for just several weeks, let alone a year. This is something even every child knows." ("Selected Works of Marx and Engels," vol 4, p 368) Of course, this does not mean that the labor of workers in nonproductive departments is not important or that their labor contributions cannot be compared with those of the workers in production departments. In the stage of socialism, the existence and development of a socialist society will be unimaginable if there are not functionaries of the party and government organizations and laborers working on all fronts of education, science and technology, public health, and literature and art.

For the above two points, I think that we cannot just consider the distribution principles of the two to be different in nature simply because the wages of workers in production departments come from the preliminary distribution of the national income while the wages of workers in nonproductive departments come from the redistribution of the national income.

Why should the two adopt different wage forms then? Wages of socialism reflect the demands of economic laws such as the law of distribution according to work, and this is its nature. However, the specific ways of distributing wages should be in keeping with the labor characteristics of different posts and be flexible. The labor of workers in production departments and the labor of workers in nonproductive departments have different characteristics. Enterprises under the system of ownership by the whole people are relatively independent commodity producers. As part of an enterprise's collective labor, the labor provided by each staff member and worker will eventually materialize in the commodities produced by the enterprise, establish a certain amount of value according to the time of necessary social labor, and find expression in different economic returns. However, the labor of functionaries of government organizations and institutions is measured by the complexity of their work and their work performance. Generally, they will neither materialize into commodities nor establish value. One of the drawbacks of the wage system practiced since the founding of the country lies in the different characteristics of these two kinds of labor not being given careful consideration. In fact, productive and nonproductive departments practiced the grade wage system. Bonuses and piece rate wages of enterprises under the system of ownership by the whole people were prohibited for being repeatedly regarded as something revisionist. In the wage system reform, we have abolished the grade wage system and given prominence to wages according to post in the structural wage system of state functionaries. In enterprises under the system of ownership by the whole people, on the one hand we have stressed directly linking the total wages of an enterprise with its economic effectiveness; on the other hand, we have allowed enterprises to choose labor remuneration forms most suitable for themselves. These changes are in keeping with the respective labor characteristics of staff and workers of enterprises under the system of ownership by the whole people and state functionaries and are conducive to further implementing the principle of distribution according to work and bringing into play the initiative of different quarters.

#### Diversified Economic Forms and Different Distribution Systems

Upholding the common development of diversified economic forms and operational modes in our long-standing principle. Marx once said: "Every kind of distribution of the means of subsistence is a result of the distribution of production conditions itself. However, the distribution of production conditions reflects the nature of the production modes." ("Selected Works of Marx and Engels," vol 3, p 13) Therefore, under the circumstances of the coexistence of diversified types of economy, there must be different distribution systems. Special attention must be paid to making a distinction between remuneration in the form of salaries and wages acquired under the principle of distribution according to work, and the profits and benefits acquired through individual operational activities. These are two different types of production relations and distribution relations. As far as the economy under the system of ownership by the whole people is concerned, its operations (including the main economic activities of large and medium enterprises under the system of ownership by the whole people) are consciously carried out in a planned way



under the regulation and guidance of the direct and indirect state plans. Its products are part of general social products and do not belong to individual staff and workers. The remuneration for the labor of staff and workers is distributed under the macro control of the state and in light of economic laws like the law of distribution according to work and so on. Nevertheless, the means of production of individual industrial and commercial households in urban and rural areas are based on the individual ownership; their operational activities are completely subject to regulation by market mechanisms; their labor is individual labor; their products belong to them; and their profits from operational activities also completely belong to them, except for the part which should be taxed in accordance with regulations. Therefore, although they get rich through labor and their profits are proceeds of labor, it is entirely different from the practice of distribution according to work of the economy under the system of ownership by the whole people.

Under the system of socialism, the income and consumption level of the staff and workers of enterprises under the system of ownership by the whole people (including functionaries of state organizations and institutions) are constantly increasing with the development of the national economy. Moreover, they also enjoy various types of collective welfare and social insurance such as free medical services, retirement plans, and so on. According to statistics, the labor insurance and welfare expenses borne by units under the system of ownership by the whole people in 1983 were equal to 24 percent of the total wages. Individual industrial and commercial households in urban and rural areas can decide their operational activities and take flexible resultant measures themselves in light of market changes. If they run their businesses well, they can acquire more benefits and profits. However, doing business does not always mean making money. It also involves painstaking labor and great risks. Because they do not enjoy securities like collective welfare, social insurance, and so on, it is rational that their income is generally higher than that of wage-earners. According to surveys, by the end of September 1984 there were about 8 million individual industrial and commercial households across the country, involving about 10 million people and a turnover of 11 billion yuan. Of this, the after-tax profit of more than 80 percent of individual industrial and commercial households in some northern areas was below 1,000 yuan, with only a few earning a profit of more than 10,000 yuan. The profits of the individual industrial and commercial households in some southern areas, in particular in the coastal areas in Southeast China, were higher than those in the north, with more households earning 10,000 yuan or above. Therefore, it does not tally with the actual situation if people tend to think individual operation is mentioned that there are a lot of "10,000-yuan-a-year households" and that all of them have become rich.

It should also be pointed out that it is a general phenomenon in the world that the income of individual operators differs from the income of wage-earners, with the former higher than the latter. The United States is an example: Among its government officials, the President earns the highest salary, \$200,00 per year; an administrative official at the department level

earns more than \$80,000; an ordinary official of the Federal Government (above the middle level) earns more than \$30,000; and a university professor earns \$40,000 to \$50,00. The average annual salary of workers is \$16,225 (1981 figures). However, according to a survey conducted by U.S. NEWS AND WORLD REPORT in May 1982, of the managing directors of 349 largest U.S. enterprises, 26 earn an annual salary of more than \$1 million, 74 earn 0.7 to 1 million dollars, 75 earn 0.6 to 0.7 million dollars, and 102 earn 0.5 to 0.6 million dollars. The highest annual salary was \$2.66 million, far more than that of the U.S. President. There are also similar situations in Japan, Britain, France, West Germany, and Italy.

In the Wage System Reform It Is Imperative To Prevent Consumption From Being Out of Control and Great Disparities in Income

The worst malpractice in our country's wage system in force is the irrational distribution relations and serious egalitarianism. On the one hand, there is serious egalitarianism among staff and workers within enterprises. On the other hand, there is serious egalitarianism among enterprises under the system of ownership by the whole people. Therefore, to straighten out wage relations, overcome the malpractice of egalitarianism, and establish a new wage system are key problems to be solved in this wage reform. We must adopt forceful measures.

First, we must integrate economic responsibility systems with the principle of distribution according to work, so as to overcome the egalitarianism among staff and workers within enterprises. The common characteristics of various forms of economic responsibility systems are linking responsibility, power, and profit, and unifying the interests of the state, collectives, and individuals. On the basis of investigation and study, we should determine the responsibilities of workers in different professions and posts and the specific work requirements for them and establish different stringent proficiency assessment system. Under this condition, we should adopt proper labor remuneration forms to truly closely integrate the labor remuneration of workers and staff with their labor contributions in light of the characteristics of different professions and posts.

Second, we must directly link the personal income of staff and workers with the operational effectiveness of the enterprises they work for, so as to oppose egalitarianism in enterprises. This is an important development with far-reaching significance in the individual consumer goods distribution system under the situation of a socialist commodity economy.

Recently, some comrades in economic circles have raised some questions to be further studied regarding the wage reform; for example, how to prevent consumption funds from being out of control after expanding the decision-making powers of enterprises in distribution. The preliminary distribution of national income is carried out in units at the grassroots level. If many grassroots units excessively use their newly created values on consumption and make the growth rate of consumption exceed the growth rates of the newly created values and labor productivity, it will affect the state revenue,



heighten costs and affect commodity prices, and affect the state's capital construction and its capability of reproduction by expansion. It will eventually result in consumption being out of control, inflation, and great harm. Some socialist countries have already made mistakes in this aspect, and we should learn a lesson from this. Another example is that relating the personal income of workers and staff with the operational effectiveness of the enterprises they work for will surely give rise to some workers and staff who possess basically the same qualifications and work ability or who even provide to society basically the same amount of labor but who cannot receive the same labor remuneration as a result of the different operational conditions of the enterprises they work for. Just as I said above, the present development level of the productive force in our country and under the condition of practicing a planned commodity economy, this conforms with economic laws. Moreover, directly linking the material interests of individuals with the economic returns of the enterprises they work for is favorable to mobilizing the initiative of staff and workers and making them care more about the operation of enterprises. Of course, such differences among enterprises under the system of ownership by the whole people should have a limit. In particular, under the present situation of our country, economic relations have not yet been completely straightened out, the factors affecting enterprises' operational situations and levels of profit are very complicated, and some factors do not reflect enterprises' operational levels and the efforts of their staff and workers. Therefore, it is even more necessary to adopt measures to reduce as much as possible the disparity in income caused by non-labor factors.

In order to prevent consumption from being out of control and great disparity in income, it is necessary to pay close attention to the following points:

First, because the total wages are the basis for enterprises to increase wages in the future, we must carefully examine and verify them and reject various irrational factors.

Second, we should carefully study the economic effectiveness target system linking the total wages of enterprises. If we regard tax and profit delivery to the state as the only criterion for judging the operations of enterprises and made production targets for enterprises, we are liable to take a non-sided view. In setting economic effectiveness targets to control the growth of the total wages of enterprises, we should aim not only at ensuring the revenue of the state, but more importantly, at ensuring that the growth rates of the national income and labor productivity grow faster than the growth rate of consumption funds. This is where the key to preventing consumption from being out of control lies.

Third, we should carefully assign the floating proportions of the total wages of all trades and professions to their economic effectiveness. We should draw up a detailed working plan. This is a very sensitive issue and is liable to bring about irrational situations. Some information about some socialist countries shows that when economic effectiveness targets increase by 1 percent, the growth rate of the total wages should be controlled at around 1 to 0.5 percent.

Fourth, in order to prevent great disparity in income among staff and workers of enterprises under the system of ownership by the whole people, the state should begin to levy the progressive wage regulation tax. Moreover, this must be stringently carried out so as not to let it become a mere formality. Hungary ever provided its state-run enterprises with wage grades and norms for reference. It seems that we can draw lessons from this.

CSO: 4006/848

LABOR AND WAGES

RENMIN RIBAO ARTICLE ON DEVELOPING SERVICE INDUSTRY

HK060935 Beijing RENMIN RIBAO in Chinese 29 Jul 85 p 5

[Article by Bai Zhongyao [4101 0112 1031]: "The Reform and Development of the Service Industry"]

[Text] Urgent Need To Develop the Service Industry

Many professions and trades combine to form the service industry. In the past, the service industry referred to such traditional services as those offered by hotels, public baths, barber shops, laundries, dyeing shops, photograph studios, the catering service, and the maintenance service. As a result of social, economic, and cultural development, information service, scientific and technological consultants, advertisement agents, tourist service, and other new services have come into existence.

Both the party and the state encourage the development of the tertiary industry, of which the service industry is an important branch. The vigorous development of the service industry has great significance for the national economy: 1) By providing various services for various sectors of the national economy, the service industry can facilitate the cooperation between various departments and the development of social division of labor and of specialization, thus giving impetus to the rationalization of the economic structure and to the benign cycle of the national economy; 2) the development of the service industry can help us meet the people's growing needs and improve the quality of their material and cultural lives; 3) the development of the service industry indicates higher social productivity and more elaborate social division of labor. The development of the service industry can help us economize on social labor and improve economic results; 4) In the past, social purchasing power was mainly absorbed by material goods. Thus, the development of the service industry can help us withdraw more currency from circulation and contribute significantly to stabilizing prices; 5) By absorbing a large amount of labor, the service industry is an important means by which we solve the employment problem; and 6) the development of the service industry can positively contribute to the expansion of our economic and technical cooperation with foreigners and to our pursuit of the open policy.

For a long time, under the influence of "leftist" and traditional ideas, close attention has been paid to production at the expense of circulation and the service industry. Although such services as transportation, communications, telecommunications, and so on, which are referred to as branches of production, have developed significantly since liberation, they are still very poorly developed in view of society's needs. Although since the 3d Plenary Session of the 11th CPC Central Committee, the hotels, public baths, laundries, dyeing shops, barber shops, photograph studios, the catering service, and the maintenance service have somewhat developed, they have not developed to the point reached before liberation in many cities. Our backward service industry is not in keeping with the development of production, the expansion of circulation, the frequent international contacts, and the improvements in the people's livelihood. Thus, our urban and rural economies urgently require us to develop the service industry. In the cities to be opened to the world, this is an even more urgent task.

#### Labor Absorbed by Services Is Also Productive

The issue of the nature of the labor absorbed by services is a basis for the theory of the service economy. Since the 1960's people have been discussing the problem of the productive or non-productive character of the labor absorbed by services. In recent years, in connection with the discussion on tertiary industry, many comrades have suggested that we should discard the traditional ideas and realistically regard the labor absorbed by services as being productive.

Invisible products or soft-core products [ruan chan pin 6516 3934 0756] produced with the labor absorbed by services differ in form from material or hard-core products [ying chan pin 4289 3934 0756]. However, they are also a result of the consumption of materials and living labor. Given the relationship between commodities and currency, the "products" of the services can, as commodities, be exchanged for other commodities on the market and they have utility and other values. With their utility and other values, the "products" of the services are a part of social wealth as well as a source of national income. The various economic laws working in our commodity economy also govern, and are also applicable to, the production and circulation of the "products" of the services.

The service industry is a sector of the national economy. It cannot operate independently of the national economy. Nor can it exist independently of various social and economic relations. In examining and analyzing the various economic relations involved in the service industry, we should have an understanding of its independent development and not fail to see its interrelations with other things.

#### Reform the Management System in Force in the Service Industry

Many professions and trades combine to form the service industry, which is a multiple-layered industry with many economic bodies and connections and

which is distributed over a large area. Other conditions have dictated the complicated character of the management system in force in the service industry.

The major weakness of the management system in force in the service industry in the past were: 1) Because of the basence of a state organ responsible for centralized management and administration, cooperation and coordinated development among various services and economic bodies were by no means an easy matter and the problem of the contradictions between departments and regions at different levels was particularly serious; 2) the management of various state-owned service enterprises was characterized by a lack of separation of government from enterprise functions and the presence of too many links and the grassroots enterprises heavy responsibilities; 3) because of the limited decisionmaking power enjoyed by the state-owned service enterprises and of the rigid control exercised by departments at higher levels, the enterprises had little vigor; and 4) the system of economic responsibilities, the labor and wage system, the systems of rewards and penalties, the welfare system, and the social security systems in force in the enterprises were imperfect, thus affecting the the workers' enthusiasm for work.

How should we revitalize the service enterprises? Now that individual and collective enterprises have been opened and revitalized to a certain extent, however, the state-owned service enterprises are still being restricted by outmoded conventions. The problem of revitalizing the state-owned service enterprises and enabling them to play a major role must be studied without delay. Small state-owned service enterprises run by individuals or collectives on a lease-basis facilitate the laborers' direct access to means of production. We can continue to experiment with them. However, we must carefully study the problem of how to handle public property, the problem of development funds and insurance funds (particularly those reserved for the retired workers' pensions), and the related problems. In the course of the reform of the large and medium state-owned service enterprises, we should conscientiously solve the problem of the separation of government from enterprise functions in order to give the enterprises responsibilities, power, benefits, and a well-conceived system of management responsibilities to adhere to. In addition, we should also study a whole series of problems including that of the forms of the system of distribution according to work and the problem of prices. Only after we have solved these problems can we really revitalize the state-owned service enterprises.

#### Implement Resolute Policies and Measures

Incorporated into the service industry are many trades, professions, and complex economic bodies. Many departments are either establishing or running their own service enterprises. In view of the complicated character and regional character of the operation of the service enterprises and of the comprehensiveness of their services, we should, on the basis of the present state of our economic development, establish a multi-layered system which involves many economic bodies, many modes of operation, and a complete range

of services. It is also necessary to establish administrative organs to be responsible for the centralized administration of the service industry or the tertiary industry.

In order to develop the service industry, it is first necessary to solve the problem of capital. In the service industry, some trades and professions, because of the highly organic composition of the capital required by them, absorb larger amounts of capital, whereas those trades and professions with a less organic composition of capital, require smaller amounts of capital. Thus, it is necessary to implement the principle of "encouraging the initiative of the state, the collective, and the individual." However, in making specific arrangements, we should pay due attention to several things at the same time. Generally speaking, collectives and individuals should be admitted into trades and professions characterized by a less organic composition of capital. However, trades and professions characterized by a highly organic composition of capital should be dominated by state investment.

In developing the service industry, expensive, moderately expensive, and inexpensive services should all be encouraged. At present, we should mainly focus our attention on the moderately expensive services. Medium-class hotels and restaurants are suitable for both consumers with moderate purchasing power and those with greater purchasing power. In addition, it also pays to comprehensively mobilize various social forces, to systematically organize peasants to run various services in the cities, and to encourage the industrial enterprises to divert their surplus capital and labor to the service industry. However, it is necessary to properly formulate overall plans and moderately specific and detailed plans in order to prevent people from rushing into mass action.

Since our service industry is poorly equipped, it is necessary to import facilities from abroad. From a long-term point of view and from the country's point of view, we should mainly rely on the country's industry for facilities. We can completely count on our mechanical industry to fulfill this task. Now, the state should formulate policies which can help and encourage the industrial departments to manufacture facilities for the services industry and which encourage the purchase by the service industry of the facilities produced in the country.

The problem of prices has resisted solution for a long time. In the past, those professions and trades which offered various services to the masses were regarded as social welfare. Thus, the policy of keeping prices low was adopted. The consumption of materials and living labor was not compensated for. Thus, their operation met with great difficulties. Now, a "crucial problem in revitalizing the state-owned service enterprises is to smooth out price relations and to reform the pricing and management systems.

With their meager capital and numble economic strength, the trades and professions in our service industry can make only very small profits and they are dominated by manual labor and are characteristically labor-intensive.

State support is needed in their development. The state should, in policy-making, give preferential treatment to them in order to give impetus to the development of the service industry and to speedily put an end to its backwardness.

It is necessary to strengthen the training for workers in the service industry. In addition to paying close attention to vocational schooling, it is also necessary to pay attention to in-service training. Wherever circumstances permit, we should lose no time in establishing institutions of higher learning which are devoted to training workers for the services. It is also necessary to conscientiously solve the problem of wages and social security in the service industry.

CSO: 4006/852

LABOR AND WAGES

WUHAN CPC 1ST SECRETARY ON ROLE OF TRADE UNIONS

HK090657 Beijing GONGREN RIBAO in Chinese 28 Jul 85 p 1

[Report: "It Is Imperative To Bring Into Play the Roles of Trade Unions in Major Issues--Wang Qun [3769 5028], the First Secretary of Wuhan City CPC Committee, on How the Party Relies on Trade Unions in Urban Work"]

[Text] Wang Qun, deputy secretary of Hubei Provincial CPC Committee and the first secretary of Wuhan City CPC Committee, pointed out in a recent talk that in building modernized socialist cities, trade unions have very important roles to play, and are the party's capable assistants and arms. The party must attach importance to and rely on trade unions, and in particular let trade unions join in the discussions on the overall questions in urban work.

Comrade Wang Qun said that, "In the new period when the party's strategic tasks and objectives have shifted to center on the four modernizations, who should we rely on in implementing the party's principles and policies to build a modernized socialist city? We think that we still have to rely on the working class. In the new period, the working class has undergone many new changes and developments, and, in particular, new important elements, the intellectuals, have been added to the working class. In urban work we should rely on workers and intellectuals, so as to bring into play the role of the working class of being the masters of the country. Because trade unions are the mass organizations of the working class and important assistants of the party, it is very important to rely on trade unions and bring into play the roles of trade unions. Only by relying on trade unions to educate and unite workers can we better solve various questions concerning the building of the two civilizations in large cities. In this regard, people should not fear the great roles of trade unions, because the greater their roles, the more advantageous to uniting and relying on the working class.

Comrade Wang Qun talked about Wuhan City CPC Committee's methods in this aspect. He said that on major issues we always invite trade unions to participate in discussions. Not only do we rely on trade unions to do well the vocational work of trade unions, but more importantly, let trade unions participate in discussions on common questions affecting the city as a whole, like price reform, personnel system reform, enterprises management



system reform, and so on. Since the working class is master of the country, it is imperative to rely on the trade unions representing the masses of staff and workers in making decisions. Only by relying on them and displaying their roles can the propositions of the party more extensively take root among the masses of workers. Because the leaders of the Wuhan No 2 Printing and Dyeing Mill rely on the trade union, the relations among the party, administration, and trade union have been smoothly harmonized. When the trade union of the mill mobilized workers to discuss how the enterprise should deal with the rigorous tests confronting Wuhan and the question of where "the vitality of the enterprise comes from," more than 90 percent of the mill's workers and staff joined in the discussion and put forward a large number of reasonable suggestions. They proposed that "the vitality of the enterprise comes from me." The trade union of this mill has played a very good role in the work and has truly become a great school of communism. Many reforms in our city like personnel system reform, economic structural reform, price reform, and others have all been carried out relatively smoothly. Comrade Li Meifang, chairman of the general trade union of the city, always joins the city CPC committee in deciding important issues. With a thorough understanding of workers, Comrade Li Meifang is able to undertake the sole responsibility for one matter in the reform and can report to the higher levels as soon as problems are discovered and speak for the workers. When thereform just started, some enterprises took a one-sided approach to the system of contracted responsibility. As a result, some well-to-do personnel were only given 60 or 70 percent of their wages and some were even fired on an excuse. The phenomeon was timely reported by the trade union to the city CPC committee and stopped. Not long ago, the masses of workers and staff members had complaints about the price hikes, and the trade union also promptly made it know to the city CPC committee. Because workers are willing to talk with trade unions about their complaints, trade unions are very sensitive and well-informed. The vast numbers of staff and workers (including intellectuals) are the fundamental forces for building the four modernizations of the city, and their movements and feelings are extremely important to the urban construction. In this regard, our city CPC committee needs to promptly master situations, and trade unions are very capable assistants and arms of the city CPC committee.

Comrade Wang Qun pointed out that party committees should attach importance to the individualities and characteristics of trade unions. In addition to drawing up the overall plans, party committees should also pay attention to studying strengthening trade unions ideologically and organizationally and give consideration to their special characteristics. Since trade unions represent workers, they should help the party and government as well as supervise them. Some factories with good foundations have become disorderly as a result of housing and bonus distributions. And a factory is now in disarray because the leading cadres there sought their personal interests and covertly promoted themselves in the wage readjustment instead of giving a good lead, thus affecting the enthusiasm of the workers. In order to supervise cadres, apart from examining them, the party organizations should also rely on trade unions and staff and workers' representative assemblies to appraise cadres through discussions once every half a year or a year.

Trade unions should be bold in assuming sole responsibilities. Party committees should make efforts to support those comrades who have done a good job for trade unions but fallen victims to rumours and gossip, and should not just blame them for their inadequacies. Our city CPC committee has a phrase about strengthening leadership over trade unions, namely, trade unions should be politically cared for, ideologically paid attention to, supported in work, and organizationally strengthened. Over the past few years, in accordance with the relevant regulations of the CPC Central Committee, we have carried out the readjustment and consolidation of the leading groups of trade unions in enterprises and institutions in the light of the requirements for the "four transformations" of the cadre force. Basically, we have provided enterprises and institutions with professional trade union cadres, with deputies of the party and government organizations working in trade unions and party-member trade unions cadres generally joining party committees.

CSO: 4006/847

## LABOR AND WAGES

### TRADE UNION FEDERATION EULOGIZES MA SHENGLI

OW311413 Beijing XINHUA Domestic Service in Chinese 1228 GMT 29 Jul 85

[Be reporter Huang Fengchu]

[Excerpt] Beijing, 29 Jul (XINHUA)--The Secretariat of the All-China Federation of Trade Unions recently proposed that trade union organizations at all levels and the broad masses of staff and workers should conscientiously study the "Recommender's Word," written by the Office of the CPC Central Committee's Commission for Guiding Party Rectification Work on the newsletter written by a XINHUA reporter "Ma Shengli, a Good Plant Director Who Often Thinks of the Interests of the State and the People," and the newsletter itself; warmly support good plant directors like Ma Shengli; and carry reform through to the end.

The Secretariat of the All-China Federation of Trade Unions maintained that, at a time when the reform of economic structure, with stress on cities, is further strongly developing, the fact that the CPC Central Committee's Commission for Guiding Party Rectification Work recommends such a good model as Ma Shengli to the entire party is of very important guiding significance. It will certainly give a tremendous impetus to the healthy development of reform of the economic structure and the fundamental turn of party work style for the better. The basic spirit of "Recommender's Word" far exceeds the scope of plants and enterprises, and is of universal significance in all aspects of work, including that of trade unions.

The Secretariat of the All-China Federation of Trade Unions called on cadres and the broad masses of staff and workers of trade unions at all levels to learn from Ma Shengli's deeds in three aspects:

Learn from Ma Shengli's good ideology and work style, as manifested in the fact that he used the powers given to him by the party and the state to enhance welfare for society and the people; in the fact that he further established a viewpoint on the whole situation in the course of reform; in the fact that he implemented the comprehensive consideration of the interests of the state, the collective, and the individual; in the fact that he was bold

in safeguarding the interests of the state and the masses of staff and workers; and in the fact that he resolutely struggled against the unhealthy tendencies of abusing official powers, violating state interests, and seeking personal interests, or the interests of small groups.

CSO: 4006/847

TAIWAN

# RADIO COMMENTARY ON REAGAN'S ACHIEVEMENTS

OW091003 Taipei International Service in English 0200 GMT 7 Aug 85

[Station commentary]

[Text] American presidential scholars say that Ronald Reagan is probably one of the greatest American presidents, and may match Abraham Lincoln in greatness. Maybe it is too early to make a judgment on President Reagan. After all, he still has more than 3 years to go before he retires, and could make serious blunders during that time. Hence, the Chinese maxim that one cannot judge a person until after his death.

However, changes are that scholars have made a correct appraisal of Reagan's performance as a president, even though it is tentative one. Lincoln's greatness lies in arousing the moral consciousness of the United States by emancipating the black slaves, and in forging the divided nation into one. An assailant's bullet, however, put an end to his life and hope of scoring other great achievements.

The United States today is vastly more complicated and wealthy than in Lincoln's days. So is the world at large. As the world's strongest nation and leader of the Free World, America has concerns extending far beyond its borders. The end of the Second World War found the United States at the pinnacle of power. Flushed with fresh victory and prosperity at home, America set out to save the world by helping war-ravaged countries to rebuild on ashes and standing guard against the communist encroachments on the Free World. The American people were united. Conservatives and liberals alike knew who the enemy was. And they did not have any doubt about their country's mission.

But, what goes up, inevitably comes down. America started its descent in the early 1960's. With the communication of Cuba, the Western Hemisphere stopped being America's backyard. The Vietnam conflict not only created plarization among the American people, but also brought the country's first humiliating defeat and contributed to its economic decline.

The United States Reagan inherited from Jimmy Carter, was one of self-doubt and demoralization. For the first time the United States found itself inferior to the Soviet Union in military match, and its economy was in bad shape with a double-digit unemployment rate.

Upon entering the White House in 1981, Reagan lost no time to solve the deepening economic crisis and rebuild America's military capability at the same time. It was a Herculean task, but Reagan tackled a twin task with creditability during the first term in office. In so doing, he also restored the American people's pride in their country, as evidenced in the unabashed demonstration of patriotism during the 1984 Olympic Games in Los Angeles.

The United States still has a long way to travel to regain its former prestige and influence. However, it is an attainable goal, if the American people support their incumbent president during the remainder of this second term.

CSO: 4020/334

TAIWAN

PRESIDENT CHIANG MEETS U.S. CONGRESSIONAL GROUP

OW091409 Taipei CNA in English 1355 GMT 9 Aug 85

[Text] Taipei, 9 Aug (CNA)--President Chiang Ching-kuo Friday assured visiting American congressmen that seeking close economic relations with the United States is one of the goals of the Republic of China.

President Chiang Friday met four U.S. Congressmen and their wives at the Presidential Office: Danny L. Burton, R-Indiana; James V. Hansen, R-Utah; J. Rowland, D-Georgia; and Del Ben Blaz, R-Guam.

During their talks, Chiang extended his hearty welcome to them for their current visit to this country. They reviewed programs in economic cooperation and cultural exchange between the two countries. They also exchanged opinions on the international situation.

The guests expressed their appreciation to the president for the hospitality they have received during their stay here so far. They also briefed Chiang on their trip here.

They told Chiang that they will take the opportunity to learn more about this free country and its people who are struggling hard in defending the freedom and peace of humanity.

Chinese Government officials present at the meeting were Shen Chang-huan, presidential secretary general, and Vice Foreign Minister Ding Mou-shih.

The congressmen arrived in Taipei 6 August with their wives for an eight-day visit.

CSO: 4020/334

TAIWAN

TAIPEI VIEWS LI XIANNIAN'S U.S. VISIT; ROC-U.S. RELATIONS

OW112235 Taipei Domestic Service in Mandarin 2300 GMT 9 Aug 85

[Talk by Ms Li Chung-kuei, executive director of the Pacific Culture Foundation: "The Effects of Li Xiannian's Visit on ROC-U.S. Relations"]

[Excerpts] Li Xiannian, the so-called president of the Chinese Communist regime, and his 13-member delegation, arrived in Washington 22 July after concluding their visit to Canada.

Although Li Xiannian is a 76-year-old symbolic president of the Chinese Communist regime, who may even be relieved of his post in the near future, he is the first Chinese Communist leader in such a high position ever to visit the United States in the past 36 years; and President Reagan, not yet fully recovered from surgery which removed a cancerous tissue from his colon, left the hospital to meet him as scheduled. The great attention both sides paid to the visit bespoke the significance of the visit. Therefore, although certain people maintain that Li's U.S. visit was a formalistic, fruitless trip that had little significance, Li was determined to accomplish something. Among his followers, Li Peng considered a third-echelon communist leader; Wang Zhaoguo, member of the Secretariat of the CPC Central Committee [as heard] is a "little tiger" of Deng Xiaoping; and Ji Pengfei, former Chinese Communist foreign minister and now state councillor and director of the Hong Kong-Macao Office, are all notable figures who, as members of the delegation, betrayed Li Xiannian's ulterior motives.

When Li Xiannian and Reagan discussed the Taiwan issue, President Reagan candidly and straightforwardly indicated that the United States would not play mediator in the dispute between the two sides of the Taiwan Strait, and that the China issue should be settled peacefully by all Chinese people themselves. This shows that as long as Reagan is in office the Chinese Communists' dream will not come true. It must be noted, however, that Li Xiannian achieved significant successes during his trip. First of all, an agreement on nuclear energy was signed.



[Words indistinct] were also officially signed in Washington. That was specially arranged by Washington to please Li Xiannian and make his visit to the United States seem fruitful. This is because the United States always thinks that Li is a representative of the anti-U.S. and pro-Soviet faction, and that if the United States can change Li's mind, it might be the most effective way to prevent the Chinese Communists from rejoining the USSR. This is why, in addition to the nuclear energy agreement, the United States threw in two other agreements--the agreement on culture and educational cooperation, and the agreement on fishery cooperation.

Third, the Taiwan issue was again discussed. As a member of Li Xiannian's entourage, Ji Pengfei, [words indistinct] made it a practice to present the Chinese Communists' hackneyed proposal of settling the so-called Taiwan issue by means of their so-called "one country, two systems" formula, which is nothing but a united front ploy. Although President Reagan strongly stated that the United States will not act as a mediatory, the American public might be deceived by the propaganda and think that the proposal could be a moderate way to settle the China issue.

Fourth, a new Chinese Communist consulate general was opened in Chicago. Since the Chinese Communists officially established diplomatic ties with the United States on 1 January 1979, they have tried hard to open more consulates general in the United States. Now they have succeeded in opening a new consulate general in Chicago, where the elements of the Taiwan independence movement have been quite active.

Fifth, Vice President Bush accepted an invitation to visit the Chinese mainland. During President Reagan's banquet in honor of Li Xiannian, Li impolitely raised the Taiwan issue, saying that the United States failed to handle the Taiwan issue in accordance with the joint communique. President Reagan, however, did not rebut the criticism, but he officially announced that Vice President Bush had accepted the Chinese Communists' invitation and would visit the Chinese mainland. It is certain that the Taiwan issue will be discussed again during that visit.

A view of Li Xiannian's visit to the United States shows that the two sides, in addition to accomplishing the exchange of visits between the so-called "heads of state," signed several agreements on cooperation in specific fields, and the Chinese Communists have successfully invited Vice President Bush to visit the Chinese mainland, and establish a new consulate general in Chicago. All these fully show that the bilateral relations between Washington and Peiping have been strengthening. Li Xiannian's U.S. visit has in fact written a new chapter in Washington-Peiping relations. Such being the case, we should not think that Li's visit was a failure on the basis that he did not achieve any progress on the Taiwan

issue. We should not think that, just because of protests and demonstrations were staged by Overseas Chinese in the United States, the Chinese Communists would retreat. We should not think that, as long as Reagan is in office, there would not be any changes in ROC-U.S. relations. We should not think, in particular, that as long as there is the Taiwan Relations Act, the Chinese Communists will not be able to realize their scheme, that the United States would ignore the Chinese Communists' efforts to stop U.S. arms sales to the Republic of China, and that we will have nothing to worry about. We are deeply convinced that Li Xiannian's visit to the United States has already affected ROC-U.S. relations. The United States has already created instability in the Asian-Pacific region by assisting an evildoer in this region. Moreover, the Chinese Communists' frequent diplomatic activities in recent months--Li Xiannian's visit to the United States, Wang Zhen's visit to Japan, Zhao Ziyang's visit to Europe, Wei Yuming's visit to Great Britain, Li Dongye's visit to Lesotho, and especially Yao Yilin's visit to Moscow--have made people think that the Chinese Communists have opened their door and are willing to coexist peacefully with other countries in the world and negotiate sincerely with us to settle the China issue peacefully.

Furthermore, the United States has appointed a new Chinese affairs expert, Winston Lord, to be U.S. ambassador to Peiping. As a man known for objectivity and sobermindedness Lord may not intend to hurt our interests, but judging by his background and his relations with those around him, he may be a challenge to us, requiring us to exert greater efforts to meet the challenge. Therefore, after Li Xiannian's visit to the United States, we should understand the adverse effects and double our efforts to push forward our governmental and nongovernmental projects in the United States in a planned and systematic manner to promote ROC-U.S. friendly relations. This is an objective we should strive to attain.

CSO: 4006/863

TAIWAN

MONGOLIAN CHINESE IN U.S. SUPPORT TAIWAN

OW120427 Taipei CNA in English 0306 GMT 12 Aug 85

[Text] Los Angeles, 11 Aug (CNA)--A high ROC Government official has said that overseas Mongolian-Chinese in the United States are anti-communist and support the Government of the Republic of China. They even plan to establish a "Taipei Center for World Mongols" next February in New Jersey.

Tung Shu-fan, chairman of the ROC's Mongolian Tibetan Affairs Commission, hosted a dinner for more than 50 overseas Mongols in southern California, including Wang Shao-yu, president of the Mongolian Benevolent Association of Southern California.

Tung said most Mongolians in the United States maintain a life style of Chinese tradition. "They are staunchly anti-communist and loyal to the Government of the Republic of China," Tung added.

There are an estimated 2,500 Mongolian-Chinese in the United States, most of whom live on the West Coast. Tung left for San Francisco today and will proceed from there to visit Tibetan Chinese in Seattle.

CSO: 4020/334

TAIWAN

TEXTILE TRADE TALKS TO BE HELD IN WASHINGTON

OW140343 Taipei CNA in English 0244 GMT 14 Aug 85

[Text] Taipei, 13 Aug (CNA)--The Republic of China and the United States will hold a consultative meeting on textile products 19 August in Washington, D.C.

Wu Ching-tang, deputy director general of the Board of Foreign Trade, will represent the ROC to discuss with his American partners on the restrictions the U.S. authorities are imposing against the ROC's textile products. Reportedly, Wu will ask the U.S. Government to lift the ban on the imports of seven items of textile products from the ROC, or at least to give the ROC the highest possible quotas.

The U.S. Government has prohibited imports of 12 items of textile products, including cotton underwear, from the ROC beginning in June. In a consultative meeting in July, the U.S. side agreed to lift the ban on 5 of the 12 items and set quotas instead.

The Board of Foreign Trade urged domestic textile producers to offer export information about the remaining seven banned items, including man-made fiber socks, so that the board can discuss the matter with the American trade authorities in the forthcoming meeting.

CSO: 4020/334

TAIWAN

TAIWAN PAPER'S CRITICISM OF POLICY TOWARD MAINLAND CITED

HK300753 Beijing ZHONGGUO XINWEN SHE in Chines 1314 GMT 29 Jul 85

[Text] Hong Kong, 29 Jul (ZHONGGUO XINWEN SHE)--A report from Taipei says that several days ago, Taiwan's TZU LI WAN PAO pointed out in its editorial that the Taiwanese authorities' "various rigid policies toward the mainland do not correspond with the times and run counter to popular feelings."

TZU LI WAN PAO issued an editorial on the "strong criticism" recently put forward at a "National Construction Committee" meeting by overseas academics concerning the authorities' "foreign policy and policy toward the mainland." The editorial called on the Taiwanese authorities to pay attention to the "sensitive remarks" at the "National Construction Committee" meeting.

Entitled "removal of political worries is more important than removal of economic difficulties," the editorial pointed out that the root cause of the worsening economic situation in Taiwan and the pessimistic view of its economic prospects lies in the fact that Taiwan's future is full of uncertain factors.

The editorial said: Although the "government" is not standing idly by with regard to political uncertainties and the worsening economic situation, the measures it has taken sluggishly and ineffectively and which have made itself attend to trifles to the neglect of essentials are not, after all, compatible with the anxiety of the people. In particular, its various rigid policies on politics and diplomatic relations as well as toward the mainland do not correspond with the times and run counter to popular feelings. If this continues, we will be more worried about the situation!

The editorial hoped that the authorities will get rid of the conservative mentality which follows the beaten track, will examine the present political and economic measures with extraordinary determination, and will adopt reform measures which will help solve the present difficulties and open up prospects. Otherwise, if various latent problems emerge and deteriorate, they will be too serious for us to tackle.

TAIWAN

TAIWAN PREMIER INTERVIEWED BY SAUDI PAPER

OW131231 Taipei CHUNG YANG JIH PAO in Chinese 4 Aug 85 p 1

[Text] Taipei, 3 Aug (CNA)--Premier Yu Kuo-hua pointed out that the statement of threatening the use of force in taking Taiwan, repeatedly made by Chinese Communist top dog Hu Yao-pang and others, has unmasked his own lies about "peaceful reunification." In fact, the Chinese Communists have never abandoned their intention of taking Taiwan by force. Neither has the Republic of China [ROC] relaxed the necessary vigilance. The ROC has full confidence and determination in defending its own security.

Yu Kuo-hua made this statement when interviewed by Khaled Al-Maeena, editor-in-chief of ARAB NEWS of Saudi Arabia. This English language paper and its Arabic-language edition, AL-SHARQ AL-AWSAT, carried his interview today.

Accompanied by Chang King-yuh, director of the Government Information Office, Khaled had the interview with Premier Yu on 29 July. Following is the full text of the interview:

1. Question: Numerous recent news reports, such as concerning "peace talks" with the Chinese Communists, the talks between the United States and the Chinese communists, and the negotiations between the United States and the Soviet Union, U.S. arms sales to the Chinese Communists, and some major international issues such as the Hong Kong problem, all have something to do with the ROC. The ROC has consistently refused to hold talks with the Chinese Communists. The world situation is changing, and everybody is taking a low profile. What are the reasons for your country's refusal to hold peace talks?

Answer: The ROC's stand of having no contact or talks with the Chinese Communists is based on the firm belief that the communist system does not suit China. It is a rational decision in the long-term interest of the Chinese nation. The confrontation across the Taiwan Strait today is between two opposing ideologies and life style. Personally, I believe that Saudi Arabia has a

profound understanding of the vicious nature of communism. We cannot abandon this stand to prevent China from being totally communized.

Furthermore, our past experience in peace negotiations with the Chinese Communists tells us that in the Chinese Communist vocabulary, so-called "negotiation" is just another form of struggle to dominate. When they are unable to obtain their goals by force, they engage us in "negotiations" to soften our stand and, at the same time, to drive a wedge between the ROC and friendly countries.

It is obvious that the Chinese Communist peace overtures of late continue to be tactical and expedient moves to complement its struggle to dominate. The recent remarks by Hu Yao-pang, the "general secretary" of the Chinese Communist Party, show that the Chinese Communists know that they are unable to take Taiwan by force at present. Therefore, they are publicizing abroad their desire to hold peace negotiations. Hu Yao-pang has said quite bluntly that once their preparations are completed, they will naturally consider the use of force. So peace negotiations are merely a tactic at the present stage of their struggle to dominate us.

More important still, the Chinese Communist peace overtures, although they appear to be reasonable, are murderous daggers hidden behind smiles. For instance, first, in all their proposals, the Government of the ROC is placed on an unequal status as a "local government." Second, on the surface, the Chinese Communists "permit" our country to have its own troops while, at the same time, they are doing all they can to prevent us from purchasing arms and deny us our basic right to self-defense. I personally believe that no country with self-respect in the world today is willing to hold talks concerning its fate and future on an unequal basis and under coercion and pressure. The ROC, of course, is no exception.

2. Question: What is your country's solution to the so-called China problem or Taiwan problem?

Answer: What is facing the Chinese people today is only the "China problem" there is no "Taiwan problem." What you call the China problem should be the problem of the future of China, or the problem of China's reunification, with which people are generally concerned, and the problem of the future course of the Chinese mainland. We believe that although the Chinese people unanimously desire peace and reunification, the reunified China they desire should be one that can promote world peace, increase mankind's well-being, enforce democratic and constitutional government, protect basic human rights, encourage free enterprise, and respect private property ownership, and not a China which



upholds the leadership of the Communist Party, the people's democratic dictatorship, the socialist road, and Marxism-Leninism-Mao Tse-tung Thought. The best solution to the China problem is the institution of a system throughout China which permits political democracy, equal economic opportunity, and social pluralism and respects traditional culture. Such a reasonable system will certainly be acceptable to the whole population and certainly benefit the whole population. If the China problem is solved on this basis, all other secondary problems can be solved. In its 70 years of history, the goal of the ROC has consistently been that of establishing a free, democratic, and prosperous China on the basis of San Min Chu I [The principle of the people, for the people, and by the people]. This is totally incompatible with Chinese Communist domination featuring the Chinese Communist Party's totalitarianism, enslavement, and backwardness. As a matter of fact, anyone can tell whether Sna Min Chu I or communism conforms to the longterm interests of the Chinese nation if one compares the reconstruction achievements of our country and those of the Chinese Communists over the past 30 years and the living standards of the people of the two different places. From the long-term viewpoint, China must be reunified. This is the common desire of all Chinese. This reunification, however, must be carried out on the basis of a free and democratic China. The Chinese Communists have admitted the failure of their Marxist-Leninist-Mao Tse-tung line over the past 30 years and revealed their desire to learn from Taiwan. Consequently, they should proclaim the renunciation of communism, and allow the Chinese people to reestablish their life style according to Dr Sun Yat-sen's professed ideals.

3. Question: What actions will you take in response to the recent repeated declarations by CPC "General Secretary" Hu Yaopang and other Chinese Communist chieftains that they do not preclude the use of force against Taiwan to achieve reunification?

Answer: The fact is that during the last 30 years and more, the Chinese Communists have never abandoned their intention to take Taiwan, Penghu, Kinmen, and Matsu by force, nor has the ROC relaxed its vigilance against this threat. In recent years, while modernizing our army, we have doubled our efforts to speed up our economic and scientific and technological development and to build a stable and prosperous society. We are fully confident and determined to safeguard our security.

The recent statements by the Chinese Communists have exposed their lies about "peaceful reunification," which they have been trying to make the world believe in recent years. We think that our defense not only concerns the security of the 19 million people on the island, but also affects the strategic defense in the western Pacific. Therefore, while endeavoring to strengthen our military and economic power by ourselves, we sincerely hope that the international community will recognize the aggressive nature of the



Chinese Communists, cooperate more closely with us in the military, economic, and scientific and technological fields, and increase their diplomatic and moral support for our cause.

4. Question: How do your people intend to overthrow the Communist rule on the mainland?

Answer: In accordance with the expressed wishes of the Chinese people at home and abroad, the ROC affirms that the only way to resolve the China issue is by promoting the establishment of a free and democratic political and economic system under which the Chinese people on both sides of the Taiwan Strait can work for a better life. This is what we are striving for, and what free and democratic countries all over the world expect of China. The concrete practice on Taiwan, Penghu, Kinmen, and Matsu has demonstrated that the ideas contained in the three principles of the people formulated by Dr Sun Yat-sen, founder of the ROC, such as respect for social ethics, democracy and science, not only are suitable for resolving questions faced by China, but also accord with the world's trend. We deeply believe that if we can disseminate the idea of "achieving China's salvation on the basis of freedom and democracy" on the Chinese mainland, through various channels and by various means, and call on the people there to regain freedom and democracy from the Chinese Communists, an irresistible pressure will develop on the Chinese mainland, which will bring an end to communism and Chinese Communist rule. This is what we consider a peaceful means in resolving communist rule on the Chinese mainland.

5. Communist China has time and again opposed U.S. arms sales to Taiwan. What are the real motives for their opposition? Is it because such arms sales will hamper proposed peace talks or increase tensions in the Taiwan Strait, as it has maintained?

Answer: The Chinese Communists' policy has always been "to take Taiwan, even if it should be done by force." Before they can attack Taiwan with a military force, they must put up a false peace front to oppose U.S. arms sales to the ROC in order to mislead the international community, weaken our defense capability, and ultimately achieve their goal of invading Taiwan by force. Maintaining our country's adequate military strength is the best way to maintain stability in the Taiwan Strait. The Chinese Communists' false charges that U.S. arms sales to Taiwan will hamper its proposed peace talks and increase tensions in the Taiwan Strait are the practice of a thief crying "stop thief"! Actually, the Chinese Communists' threat to and pressure on Free China are the true cause of tensions in the Taiwan Strait.

6. Question: What is Your Excellency's view on possible arms and high technology deals between the United States and Communist China?

Answer: We cannot but express our grave concern whenever a country proposed to sell arms and high technology to the Chinese Communists. This is because such actions will not result in any great changes in the overall Chinese Communist combat capability as compared to that of the Soviet Union, but will provide the Chinese Communists with an increased combat capability against the ROC, therefore increasing the danger in the Taiwan Strait. As a result, stability in Southeast Asia and the western Pacific, and even in the entire world, will be seriously threatened.

7. Question: With a view to containing the Chinese Communist regime, does Your Excellency foresee certain kinds of relations between the ROC and the USSR?

Answer: Anticommunism and recovery of the mainland are the fundamental national policies of the ROC. Therefore, we can have absolutely nothing to do with the Soviet communist regime, which practices Marxism-Leninism. In our struggle today with the Chinese Communists, our enemies are only a small number of people who control the communist regime. The masses of Chinese people on the mainland are our compatriots. We would never consider linking up with the Soviet Union to contain that handful of people at the risk of losing the support and sympathy of all Chinese people. Freedom and democracy are the goals of our current domestic construction, and the guidelines in building our country after the recovery of the mainland. They are also the moral principles guiding our country's foreign policy.

8. Question: What is your country's reaction to Hong Kong's return to Communist China in 1997? What effect will it have on your country?

Answer: Our government on 26 September 1984 issued a statement on the agreement reached between the Chinese Communists and Britain over the future status of Hong Kong, in which the ROC Government refuses to recognize the so-called "Hong Kong Accord."

Regarding future developments in Hong Kong, our government has already made plans and is studying various appropriate measures in our trade, navigation, overseas Chinese affairs, and other matters to minimize the possible effects on our country. The government will make every effort to protect the welfare of the Chinese compatriots in Hong Kong and Kowloon. Specific measures have been promulgated concerning their settlement, investments, and study in Taiwan.

9. Question: What is your country's stand on Southeast Asia's relations with Communist China.

Answer: Southeast Asian countries established "diplomatic relations" with the Chinese Communists because of practical political

considerations. However, they do not trust the Chinese Communists and have gained nothing from these ties as they expected. With a view to promoting stability in the region, our country has taken the following position: 1) We will continue to side with the democratic camp in the region, and seek to maintain and strengthen substantive ties with democratic countries; 2) we will urge the governments of these countries to recognize and guard against Chinese Communist united front tricks, subversive acts, and its potential threat to the region; 3) we will consult with anticommunist leaders in the region to help safeguard the region's stability, freedom, and democracy.

10. Question: What about your country's relations with Middle Eastern countries, and particularly Saudi Arabia?

Answer: China and Saudi Arabia are countries with a long history and rich cultural heritage. They share similar political ideals of respecting morality and truth. They are firmly opposed to communist infiltration and expansion, and work hard to safeguard human liberty and world peace. This is why the two countries have maintained very close ties since the establishment of diplomatic ties in November 1946.

In recent years the two governments and their people have jointly worked to further develop political, economic, and cultural cooperation between the two countries. Our friendship has deepened with each passing day. As King Fahd pointed out when he received a pilgrims delegation from our country last year, Sino-Saudi relations are the closest in the world, and the two sides will make joint efforts to maintain such ties.

Our country maintains good, substantive relations with other Middle Eastern countries, and we have set up nonofficial offices in many of these countries.

In recent years, we have actively developed substantive relations with Middle Eastern countries through trade, cultural exchanges, economic and technological cooperation, and the exchange of visits. This has further increased friendship.

11. Question: What is your country's attitude toward Israel's tough stance and its militant nature as reflected in its invasion of Lebanon?

Answer: In his visit to your country in September 1979, my predecessor, former Premier Sun, issued a joint communique with Crown Prince Fahd, now King Fahd, which stressed that Israel must forsake the territory it seized by force and withdraw from Arab lands it occupied since the 1967 war, and that the Palestinian people should regain their legitimate rights. Our government and people admired King Fahd's farsightedness when he put forward an

eight-point Middle East peace plan on 7 August 1981, which constitutes the main theme of the "Fes Declaration." We firmly believe that the peace plan is an effective program to resolve Israeli-Arab conflicts and lay a solid foundation for peaceful settlement of the Middle East issue. We all look forward to the early return of peace to the Middle East.

12. Question: The ROC has signed cultural, economic, and other cooperation agreements with the Kingdom of Saudi Arabia. Could you elaborate on the developments in this connection?

Answer: a. The contents of Sino-Saudi Arabian cultural cooperation developed over the past years run as follows:

1) Strengthening cultural and educational interchange:

a) University presidents and professors of both countries exchange visits.

b) Universities of both countries exchange scholarships.

c) Units concerned in both countries exchange publications, recorded tapes, videotapes, and films.

d) China and Saudi Arabia exchange recognition of diplomas of schools at all levels.

e) Saudi Arabia has separately dispatched four professors to Taiwan University and Cheng Chih University to teach Arabic.

2) Strengthening scientific and technical cooperation:

a) Saudi Arabian scientists and technicians are invited to visit the ROC.

b) The ROC dispatches agricultural experts to Saudi Arabia to help improve the utilization of water resources.

c) As of this summer vacation, Ching Hua University has trained a total of 12 nuclear energy engineering students working for master's degrees on behalf of Saudi Arabia's National Saud University.

d) The electrical engineering graduate school of Taiwan University has opened a master's degree class for Saudi Arabian students; the class has an English-language curriculum; three students have graduated.

e) The ROC has trained a total of 82 engineering students for Saudi Arabian universities.

3) Strengthening exchange of youth delegation's and sports teams:

- a) Both countries exchange youth delegations each year.
- b) The ROC invites Saudi Arabian youths to attend summer camp activities and international affairs study meetings sponsored each year by the National Salvation Corps.
- c) Saudi Arabia's track and field teams and ball teams are invited to attend tournaments in the ROC.
- d) The ROC dispatches judo, karate, and Taikwondo coaches to Saudi Arabia to train Saudi Arabian competitors.

b. To strengthen economic and technical cooperation, the ROC and Saudi Arabia signed a Sino-Saudi Arabian economic and technical cooperation agreement in 1975. The agreement stipulates that a Sino-Saudi Arabian economic and technical cooperation permanent joint committee be organized and that annual meetings be held in both countries on a rotational basis to study, discuss, and determine projects for cooperation and how to build those projects. As of now, eight meetings have been held. Both sides have achieved very fruitful results in cooperation in finance, communications, medical service, agriculture, industry, and trade and in other fields. For instance, Saudi Arabia has extended to the ROC loans for capital construction totaling US\$265 million from its development funds. As a result, the ROC has greatly benefited. The ROC has dispatched medical teams, agricultural and technical groups, agricultural and technical service groups, fishery and technical groups, electric power groups, and communications groups to Saudi Arabia to perform long-term services. The Jubaylah fertilizer plant, a Sino-Saudi Arabian joint venture, has started production. The fine quality of projects in Saudi Arabia built by our engineering construction corporations has been warmly praised by both the government and the people. In addition, the bilateral trade volume between the ROC and Saudi Arabia has continuously increased. Saudi Arabia has become our third largest trade partner. It can be expected that trade between the two countries will certainly further expand. This year Saudi Arabia begins to carry out its Fourth 5-Year Plan. Now that the ROC is a fraternal country of Saudi Arabia, our government will certainly do its best to coordinate with Saudi Arabia by extending necessary services to promote Saudi Arabia by extending necessary services to promote Saudi Arabia's construction. We believe that by helping each other and fully cooperating with each other, the ROC and Saudi Arabia will certainly join the ranks of developed countries at an early date together.

13. Question: What is the position of Muslims in the ROC?

Answer: According to the Constitution of the ROC, the people enjoy religious freedom and are legally all equal regardless of their sex, religious belief, nationality, rank, or party affiliation. Therefore, like believers of other religions, Muslims in the ROC enjoy full freedom in practicing and preaching Islam. Muslims enjoy full freedom in attending mosque services and religious activities. In addition, our Constitution also stipulates special and protective measures to guarantee that a certain quota of Muslims are elected as National Assemblymen.

14. Question: What role does your country play in promoting friendly relations between Muslims in your country and in Muslim countries?

Answer: Because the ROC is a country with religious freedom and its people enjoy political stability, a thriving economy, and affluent living, religious activities have developed vigorously. Religious bodies in the ROC have maintained close ties with international religious circles. As for Islam, our country has always actively participated in activities of international nature and often dispatched personnel to attend international meetings. In addition, our country has organized Muslim pilgrimage groups for pilgrimages to Saudi Arabia each year since 1953. The Muslim bodies in the ROC are thought of highly by the international Muslim community. For instance, since 1953 Muslim personages in our country have been elected council members of the "World Muslim League." In 1983, Ting Chung-ming, a council member of the league, was elected chairman of the ROC branch of the Council of World Mosques.

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TAIWAN

ARTICLE EXAMINES TAIWAN'S ECONOMIC SITUATION

HK230351 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement)  
in English 23 Jul 85 p 2

[By Nicholas Way]

[Text] The superlatives about Taiwan's economy have rolled easily off the tongue in recent years.

Such glowing phrases as "boom economy", "dynamic growth" and "one of the fastest-growing economies in the Asia/Pacific Region" have been used by government and independent analysts alike to describe the economic performance of this island republic of 19 million people.

And such descriptions have been solidly based. For politically-isolated Taiwan increasingly pointed to its economy, and particularly its position as the 15th largest trading nation, to gain recognition in a world increasingly loath to take notice of its achievements.

In statistically-minded Taiwan, the figures to support these claims are not hard to find. They include:

-- Foreign reserves, including gold reserves, exceed US \$20 billion.

-- Real gross national product (GNP) growth from 1953 to 1962 averaged 7.5 percent before expanding at more than 10 percent annually in the 10 years to 1972. From 1973 to 1980, it averaged 8.7 percent, then declined during 1981-82 before notching 7.1 percent in 1983 and a massive 10.9 percent last year.

--Gross national product (GNP) in 1952 was US \$1.33 billion. Last year it reached \$57.84 billion.

--Per Capita GNP grew 4.7 percent in the 1950s, 6.2 percent the following decade, and 7.9 percent in the 1970s. It dropped during the recession in the early 1980s, but recovered with a 6.2 percent rise in 1983 and a 9.4 percent jump to \$3,067 last year.



--Total trade in 1974 totalled US \$12.6 billion. Last year, largely on the back of a booming U.S. economy, it hit \$52.5 billion, of which \$30.5 billion was exports and \$22 billion was imports.

Such figures look impressive. Indeed, are impressive, particularly as they have been achieved while Taiwan has been forced to contend with declining political links and a disproportionately large defence bill.

But they hide major structural weaknesses in Taiwan's economy. Put another way, the very success story these figures represent has prevented the changes that are vital if Taiwan is to remain on the path of strong economic growth.

Not only are these changes needed at an industry level. The financial, legal and accounting structures are typical of an emerging third world country rather than a nation on the verge of joining the lower rungs of the developed world.

Even the labor laws evoke criticism from government, banking and industry circles.

Last year highlighted this. While the government was lauding export growth of 21.2 percent, wiser counsel has warning that rapid growth, coupled with a protected market at home, would spark protectionist sentiment abroad.

And so it has proved. In the United States, which absorbed nearly 50 percent of Taiwan's exports last year, protectionism has been growing apace, and particularly in congress.

Nowhere is this more evident than in the textile industry, which comprised 20 percent of the island republic's exports last year, earning a massive U.S. \$6.1 billion.

Yet if the Jenkins bill -- which aims to severely restrict textile imports to the U. S. -- is passed (it is now before Congress), Taiwan stands to lose 45 percent of its major market.

With the U.S. importing 41.29 percent of Taiwan's exports last year, it would be a devastating blow to the industry. Director of the Trade Development Department of the Taiwan Textile Federation, Mr David Chang, said if this bill became law it would put between 60,000 and 100,000 jobs at risk.

Yet Taiwan does not help its case. It continues to protect this industry -- tariff barriers of 40 to 60 percent on yarn/fabrics and up to 80 percent on apparel -- which has proved itself competitive in international markets.

The government is moving to remove these barriers, although according to Mr Chang the pace is not fast enough for an industry increasingly worried about growing protectionism abroad and rising confidence in its ability to maintain market share in the face of imports.



Textiles also highlight another structural weakness within Taiwan's economy.

Despite some notable exceptions in both the private and public sectors, it is dominated by small to medium-size companies, often centered around a family.

This party reflects Chinese philosophy in business, or as the vice-chairman of the national science council, Mr Wang Chi-wu half-jokingly, half-seriously, puts it: "if you have 1,000 Chinese you have 1,000 people wanting to be chairman of the board."

His council is one of several state bodies concerned with the restructuring of Taiwan's industry based on a more efficient, corporat-style management.

He concedes the government has had limited success -- others less generous would say almost non-existent -- in urging industry to eliminate "senseless competition", even to the extent of competing in such fields as research and development (R and D).

But while some officials lament the lack of "south Korean-style" conglomerates that have the capital base for R and D, Mr Wang adopts a more philosophical attitude. If the Chinese prefer the small to medium-size enterprise, then Taiwan must simply adapt this business structure towards a more efficient use of resources, whether it be capital, labor or management.

In this regard, one priority is to get companies to share costs, such as R and D. Then, with the benefits of this apparent, mergers at a miniboardroom level may be possible.

Similar to other Asian countries, Taiwan is increasingly urging industry to expand into higher-technology areas.

This will continue a trend that saw industry's percentage of GNP rise from 33.4 percent in 1964 to 50.6 percent last year. At the same time, agriculture's contribution to GNP over the same period dropped from 24.6 percent to 6.5 percent, although in absolute terms primary produce output rose.

But while the industrial move up-market has become something of a catch-cry at a top political level, Mr Wang stresses that Taiwan must be selective in the markets it chooses.

"For example, to push headlong into the top-end of the computer market will bring Taiwan into direct competition with such heavy weights as IBM and the Japanese group Fujitsu.

"Rather, Taiwan must select for itself niches in the market that will ensure strong growth and high-skill labor opportunities."

To this end, for example, Taiwan has established the development center for biotechnology to function as a bridge between public research institutions and biotechnology end-users.

This is one of the eight strategic industries that the government has pointed for rapid development, offering an array of financial incentives.

Mr Wang himself is an unabashed supporter of pure research, lamenting that government backing for projects that initially fail to show results at the bottom line is often difficult to secure.

"Taiwan has relied on the U.S. (in the field of research) in the past, but this has often meant too little, too late.

"While Taiwan must be selective because of the relative size of its economy, there are certain fields of research where it would pay us to invest. I'm sure the concrete benefits will follow."

Mr Wang added he would push this policy at the third national congress of science and technology to be held early next year.

To no small degree, the success the council enjoys will partly determine the future direction of Taiwan's economy.

For if the policies of such bodies are accepted and adopted, it will mean, in the long-term, that this island republic will be able to push export growth outside the traditional areas, such as textiles, shoes and electrical products, that are either political dynamite in developed countries or face strong competition from other exporting countries, many of which now boast lower wage structures compared with Taiwan.

It will also assist in solid growth in fixed capital formation (FCF) as Taiwan pushes into these new areas.

While FCF increased 4.3 percent last year and 6.5 percent in the early stages of this year, as a percentage of GNP it has continued to drop from 39.5 percent in 1974 to about 30 percent in 1974 to about 30 percent in the early 1980s to 23 percent last year.

According to one economic prognosis of Taiwan's economy, the slowdown in exports and the Cathay financial scandal have contributed to this decline in investment.

To help compensate, the Government has announced plans to invest U.S.\$20 billion in projects to be completed in the next six years.

Taipei and the industrial center of Kaohsiung in the south are planning mass transit systems with a total budget of nearly \$7 billion, the utility Taipower plans to construct Taichung thermal power plants, numbers 1, 2, 3 and 4, in the next four years at a projected cost of \$2.5 billion, including foreign equipment purchases of \$540 million, and moves to upgrade medical facilities are in the pipeline.

Such capital injection into major infrastructure works is well within Taiwan's budgetary capacity, and represents a welcome degree of flexibility to change tack while exports decline as the dominant engine room of the economy.

Last year, when exports performed this role, GNP rose the already stated 10.9 percent. This year the Government is only predicting a six percent rise in GNP, and some analysts think this is optimistic. In the first quarter it rose at 6.2 percent before dipping to 5.3 percent in the second.

Yet this must be seen in perspective, something Taiway, as well as other analysts, sometimes fail to do.

While growth rates in the high single digits were possible in past years, with GNP now nearing \$60 billion it is probably unrealistic to expect increases of this magnitude to continue.

And even if GNP drops to five percent growth this year, it is still healthy by OECD standards and even compared with the other economies within the Asia/Pacific rim.

In addition, Taiwan has kept its money supply under control.

According to one independent source, the wholesale price index only rose 2.5 percent and the consumer price index three percent last year. In this, the falling price of oil has proved a welcome fillip.

Meanwhile, while the drop in exports has shocked the Government, it has provided the tehnocrats, many U.S. educated, with the ammunition to push for structural reform.

Last year exports soared to 57.6 percent of GNP, an unhealthy trend even for an economy as export-oriented as that of this island republic.

As Taiwan is discovering, it leases the economy too vulnerable to the vagaries of the international market place, where political pressures often take precedence over sound economic logic.

But Taipei has used this massive trade surplus it has accumulated -- U.S. \$8.5 billion alone last year -- to dissuade both the public and private sectors from long-term foreign loans and to encourage pre-payment of outstanding loans in an effort to reduce accumulation.

Due to this policy, total outstanding debt (excluding disimbursed) declined 10 percent from \$7.5 billion to \$6.8 billion last year.

And this policy is expected to continue this year, again resulting in a net outflow of capital.

A key area where Taiwan is suffering from a firm structural basis is its financial and legal structures. Highlighted this year by the collapse of arms of the Cathay conglomerate -- Taiwan's second largest -- the financial system lacks sufficient legislative guidelines to ensure the sectors health.

Finance Ministry officials are slowly moving to institute reform, although certainly not at the pace many would like, including the foreign banks.

But officials, while conceding the magnitude of the problem, argue that given Taiwan's political and business structures, drastic changes to the system are not feasible.

Rather, reform will be piecemeal, and the pace probably in inverse proportion to the ongoing revelations emerging about Cathay and its links with Government officials.

Also creating unease are the labor laws following the enactment of the Labor Standards Law in August.

Covering 75 percent of the workforce, it provides far more generous benefits in the form of overtime, severance pay and retirement than is the norm for many of Taiwan's competitors.

While it is not comparable with the benefits and rights many workforces enjoy in developed countries (the right to strike, for example, is banned), it has forced labor costs to rise at a time of declining economic growth.

That the Government, to the highest level of the Kuomintang, is concerned can be gauged from the fact that in May an Economic reform Committee, comprising ministerial-level officials, academics and entrepreneurs, was set up.

Divided into five subcommittees charged with examining finance, taxation, trade, industry and economic administration, they are armed with the task of trying to reform the economy and encourage greater investment in industry. Already, some proposals have been aired: lower business taxes to 15 to 20 percent from 30 percent and a cut in personal tax from the current maximum of 60 percent.

Yet while the declining GNP growth rate, and the Cathay scandal, are two reasons prompting the creation of this highly-visible committee, the reality is that the problems have been long known to Government and industry.

But the difference now is that Taiwan is unlikely to be able to hide behind booming exports to cover structural weaknesses in its economy.

So perhaps now, those who have urged the need for reform will be given greater voice at the highest level of Government.

Certainly it is imperative if one of the most dynamic economies in this region is to stay on the tracks until the turn of the century.

CSO: 4020/313

TAIWAN

ZHONGGUO XINWEN SHE ON LABOR-CAPITAL 'CONFLICTS' IN TAIWAN

HK050921 Beijing ZHONGGUO XINWEN SHE in Chinese 1259 GMT 1 Aug 85

[Text] Beijing, 1 Aug (ZHONGGUO XINWEN SHE)--According to reports by Taiwan newspapers, six major labor-capital disputes occurred recently in Taiwan Province and deeply upset the authorities.

According to a report by Chao Po-sheng, director of the Social Bureau of the authorities of Taiwan Province, the six major labor-capital disputes included: The Yang-tieh factory of Taichong County laid off 279 workers and staff members and closed for 2 days in early June because of financial difficulties. On 3 June, more than 100 of this factory's workers went to lay their grievance before the chief of Taiping Township. In Miaoli County, workers of the Chonghsientou plant of a factory stopped work to protest to the management not issuing the traditional dragon-boat festival bonuses. In Taoyuan County, the Chongli plant of the Liuhe textile mill was forced to close down and this was protested by 602 workers in this plant. In Pingtung County, the third plant of the Taiwan Nuclear Power Company planned to lay off some 1,000 workers and staff members, and this irritated the workers who sent 100 representatives to lay their complaint before the county authorities and sent 10 representatives to bring their case to the "Legislative Yuan." The Kuofeng Company in Kaohsiung City announced the closedown of its plywood plant and laid off 300 workers. In Miaoli County, the Kuosu Company planned to close its Chunan plant because of insolvency, and a "provisional management committee" took over the plant.

The above six cases all affected the workers' livelihood and deeply offended the public feelings. This state of affairs also upset the Taiwan authorities. Chiu Chuang-huan, "chairman" of Taiwan Province, instructed the authorities concerned to "properly handle" these cases and "give employment guidance to workers and staff members who have been dismissed."

CSO: 4006/863

TAIWAN

TAIWAN HOLDS 'NATIONAL DEVELOPMENT SEMINAR'

OW080513 Beijing XINHUA Domestic Service in Chinese 1144 GMT  
5 Aug 85

[Excerpts] Beijing, 5 Aug (XINHUA)--Taiwan authorities reconvened the "National Development Seminar" in Taipei from 22 July to 2 August. According to Taiwan press reports, some 211 persons, including 124 overseas Chinese scholars, attended the seminar.

During this year's "National Development Seminar," Jiang Jingguo personally instructed that discussions be limited to the 14 key projects under a public construction program currently being implemented by Taiwan's authorities. However, the island's public opinion, including commentaries carried by a number of official papers, as well as scholars attending the seminar, had other ideas about the meeting.

In a 22 July editorial, Taiwan's LIEN HO PAO pointed out that by rejecting discussion of political issues and limiting its scope to the field of pure science and technology, the "National Development Seminar" is "trying to conceal faults for fear of criticism"; "of the various problems" facing Taiwan today, "the political issue is a fundamental one. If it is not resolved, there is no way that the other problems can be easily solved." TZU LI WAN PAO also pointed out that the authorities' "various rigid and inflexible policies in politics and diplomacy and toward contracts with the mainland are not in line with the people's expectations."

According to a CHUNG KUO SHIH PAO report, on the very day of the opening of the "National Development Seminar," defying the rules, the attending scholars warmly discussed several issues most "sensitive" to Taiwan's authorities including abolishing "martial law," "perfecting party politics," and "examining whether to negotiate with the Chinese Communists." Concerning the question of "whether or not to negotiate with the Chinese Communists," two Chinese-American scholars offered their view: "The authorities," current policy of no talks, no compromises, and no contacts with the Chinese Communists is improper. They should negotiate with the Chinese Communists whether in Taipei or Peking." Their speeches won warm applause.

TAIWAN

FOREIGN TRADE BALANCE FOR FIRST SEVEN MONTHS

OWL20413 Taipei CNA in English 0253 GMT 12 Aug 85

[Text] Taipei, 11 Aug (CNA)--The Republic of China's two-way trade totaled about US dollar 29.8 billion in the first seven months of 1985, down 2.5 percent or US dollar 750 million from the same period of last year, according to statistics released by the Directorate General of Budget, Accounting and Statistics [DGBAS] recently.

The ROC exports stood at US dollar 17.8 billion, up only a token US dollar 3.8 million from the level of a year ago, while its imports were about US dollar 12 billion, decreasing by 6 percent or US dollar 760 million. The ROC registered a US dollar 5.8 billion trade surplus for the January-July period.

The statistics show that the largest decrease was registered by exports of marine products, which amounted to US dollar 270 million, 6.6 percent or US dollar 19 million less than that of a year ago. The exports of ROC-made electronics, garments, footwear, metal products and toys totaled US dollar 15.38 billion, up one percent or US dollar 140 million.

As to imports, the agency under the Executive Yuan said the country imported US dollar 3.05 billion worth of crude oil and other manufactured products stood at US dollar 7.32 billion, 5 percent or US dollar 380 million less than that of the same period in 1984.

The statistics show that the United States maintained its status as the number one export market of ROC-made products, taking US dollars 8.57 billion, or 48.1 percent of the ROC's total exports. Japan was the second with US dollar 1.97 billion or 11.1 percent. Hong Kong was the third with US dollar 1.55 billion or 8.7 percent. Japan remained the country's number one supplier with US dollar 3.31 billion worth of exports, accounting for 27.7 percent of the ROC's imports. The United States followed by US dollar 2.88 billion or 24.1 percent. Saudi Arabia was the third with US dollar 790 million or 6.6 percent, the statistics show.

DGBAS said the country's two-way trade in July alone amounted to US dollar 4.53 billion, 8.7 percent less than that of a year earlier. The ROC exports stood at US dollar 2.76 billion, down by 5.2 percent, while imports were US dollar 1.77 billion, down by 13.7 percent.

CSO: 4020/334



TAIWAN

DECLINING COMMODITY PRICES HURT ECONOMY

OW290331 Taipei CNA in English 0240 GMT 29 Jul 85

[Text] Taipei, 28 Jul (CNA)--The constant decline of the domestic commodity prices could be a negative element for the nation's economic development, according to a report by First Commercial Bank.

The report says that the incessant price drop will force the domestic manufacturers to reduce their production and cut their investment. The manufacturers might also downgrade the quality of their products to increase their competitiveness in the markets with lower prices. This will seriously affect the industrial upgrading the nation has been trying hard to achieve in the past years, says the report.

Compared with other nations, the report indicates, the increase rate of the nation's consumer prices reached only 1.43 percent during the period of 1982-84, much lower than the United States, 4.45 percent; the United Kingdom, 6.06 percent; Japan, 2.25 percent and West Germany, 3.66 percent.

The report says that though the banking interest rates here have reached the lowest record since 1945, the nation's substantive interest rates are still relatively higher than other nations as the index of the wholesale prices and the consumer prices marked a negative growth. This will increase the production cost and give heavier burden to the industry.

Besides, the report noted, while the commodity prices keep dropping, the industry will delay its reinvestment and the consumers, waiting for more drops, will also delay their purchase. This will make the economic recession worse.

The First Bank's report urged the government to pay attention to the unusual situation and asked the concerned agencies to study it and take necessary measures to prevent the situation from deteriorating.

CSO: 4020/334

TAIWAN

TAIWAN URGED TO JOIN THIRD KMT-CPC COOPERATION

OW020836 Beijing XINHUA in English 0822 GMT 2 Aug 85

[Text] Beijing, 2 Aug (XINHUA)--Qian Changzhao, vice-chairman of the Revolutionary Committee of the Chinese Kuomintang (RCCK), today urged the Taiwan authorities to join in a third Kuomintang-communist co-operation to strive for early national reunification.

He said the two previous occasions when the parties had joined forces, during the northern expedition (1924-27) and the war of resistance against Japan (1937-45), had shown that they both benefited from co-operation and suffered from being divided.

Qian was addressing the opening ceremony of a painting and calligraphy exhibition to commemorate the 40th anniversary of the victory over Japan, which was sponsored by the RCCK and the Chinese Artists' Association.

He said it was co-operation between the Communist Party and Kuomintang, and the participation of the whole nation, that ensured victory over Japan.

Qian, also a vice-chairman of the National Committee of the Chinese People's Political Consultative Conference, said it had been the first total victory over foreign aggression in China's history, and had contributed greatly to the world's fight against fascism during World War II.

The 120 exhibits are the work of eight RCCK members, most of whom are also members of the Artists' Association.

Peng Qingyuan, vice-chairman of the RCCK, said the exhibits expressed the artists' love of China, their praise of the Chinese people's spirit and their strong desire for reunification of the motherland.

He said that as well as holding the exhibition, the RCCK would organize a number of its members, many of whom are former

Kuomintang generals, to write articles to commemorate the 1945 victory. The RCCK was keen to take an active part in other national or local anniversary activities.

Dong Qiwu and Zhou Peiyuan, vice-chairmen of the Chinese People's Political Consultative Conference National Committee, and leaders of other democratic parties attended today's opening ceremony.

CSO: 4020/334

TAIWAN

TAIWAN GENERAL ON SUPERPOWER INTERESTS IN ASIA

OW160308 Taipei CNA in English 0237 GMT 16 Aug 85

[Text] Taipei, 15 Aug (CNA)--The complicated situation in Southeast Asia is the result of conflicting strategic interests of the United States, the Soviet Union and Japan in this area, a strategist said in Taipei Wednesday.

General Kung Ning-cheng, former representative of the Republic of China Trade Office in Malaysia, said that the people of this nation should learn more about the situation in Southeast Asia so as to find the best way for this nation to cope with future challenges.

Kung made the remark while speaking on the topic "Analysis of the Strategic Situation in Southeast Asia 1985" at a region security seminar sponsored by the Chinese Culture University at the Howard Plaza Hotel.

Conflicting interests among superpowers have produced various kinds of confrontation in Southeast Asia, Kung said. For instance, the U.S. policy in this area is aimed at protecting its sea lanes in the Pacific Ocean, maintaining its strategic outposts and preventing any power from dominating the area.

The Soviet Union, on the other hand, is trying to maintain the free passage of its vessels, seek a warm water harbor in this area, contain Red China's expansion and promote the idea of an Asian security system. As for Japan, its main considerations are the supply of raw materials and markets in this region, he said.

In the foreseeable future, the Soviet Union will continue its support of Vietnam, while the U.S., Red China and Japan will assist Southeast Asian nations in their demand for a complete withdrawal of Vietnamese troops from Cambodia, Kung said. Commenting on the possibility of a balance of power in this area, Kung said that the current situation in Southeast Asia seems unlikely to change in the near future, and the ASEAN proposal of a neutral Southeast Asia under the guarantee of the superpowers is probably a dream that will never be fulfilled.

TAIWAN

ENVOY SAYS CONTACTS CONTINUE WITH BOLIVIA

OW141327 Taipei CNA in English 0954 GMT 14 Aug 85

[Text] Taipei, 14 Aug (CNA)--Chinese Ambassador to Bolivia Edward Wu Tsu-yu said upon return Tuesday that the situation in Bolivia could change at any time, despite the severance of diplomatic relations between the Republic of China and Bolivia.

The Republic of China broke its diplomatic ties with Bolivia 11 July when La Paz established its formal relations with Peiping.

He told reporters that although the two countries have severed their official relationship, yet contacts still continue. There is a possibility that changes or improvement of relations will likely happen at any time, he pointed out.

Some political commentators in Bolivia felt that there was a mystery behind the establishment of Bolivia-Peiping ties, Wu noted.

The Chinese envoy said Bolivian press media devoted large space in reporting the bribery scandal between Bolivian officials and the Chinese Communists, leading to the resignation of Bolivian Foreign Minister Edgar Comacho, two days after the establishment of Bolivia-Peiping relations.

He also said that he was presented awards by the Bolivian military leaders who strongly criticized former Bolivian President Hernan Siles Zuazo for making friends with Peiping at the expense of the Republic of China.

CSO: 4020/334

TAIWAN

REPORT SHOWS CHANGES IN TRADE WITH PRC, SINGAPORE

HK220328 Hong Kong AFP in English 0514 GMT 22 Jul 85

[Text] Taipei, July 22 (AFP)--Taiwan's exports to China through Hong Kong, the largest transshipment center in the indirect trade, has been declining while the business through Singapore has showed unstabilities, an official report indicated today.

A statistics of the value of export orders received by local manufacturers, released by the Economic Ministry, indicated purchase orders placed by traders from Hong Kong in June declined for the third consecutive month by 10.92 percent to 174 million U.S. dollars as compared with the previous month.

The value of the purchase orders through Hong Kong amounted to 323 million dollars in March, 194 million in April and 174 million in May, the report showed. Over 90 percent of the purchase was believed for the China market.

Since Taipei bans its people from doing direct trading with China, Hong Kong has become the largest transshipment center for the business by handling 560 million dollars worth of trade in 1984. The transaction was projected to reach one billion dollars this year.

Observers said the declining foreign exchange reserves in China might have prompted the fall in purchase orders.

The sudden cancellation of orders for motorcycles, electrical fans and some textiles in the past month, believed for the same reason, has forced several manufacturers to suspend operations for financial crisis.

China's foreign-currency reserves plunged 30 percent in six months, according to official figures, from 163 billion dollars to 11.3 billion dollars as of March 31, and Western bankers estimated that the reserves had fallen as low as 7.5 billion dollars at the end of June.

The statistics from the Economic Ministry also showed that purchase orders from Singapore, another major transshipment center for the Taiwan-China indirect trade, have been unstable in the past few months.

The amount was 32 million dollars in February, 128 million dollars in March, 64 million dollars in April, 127 million dollars in May and 71 million dollars in June.

Taiwan manufacturers received a total of 2,550 million worth of purchase orders in June -- a drop of 8.24 percent over May.

Despite the fall in the value of orders from Hong Kong and Singapore in June, the total orders from the two areas in the first six months of this year grew 55.06 percent and 59.9 percent respectively over the same period of 1984, the statistics report indicated.

The total value of purchase orders in the first half year of 1985 amounted to 15,705 million dollars -- a fall of 291 percent, the report said.

CSO: 4020/313

TAIWAN

FINANCE MINISTRY TO FURTHER LOWER IMPORT TARIFFS

OW211445 Taipei CNA in English 1420 GMT 21 Jul 85

[Text] Taipei, July 21 (CNA)--The Ministry of Finance is planning to further revise the customs import tariff of the Republic of China, lowering import tariff rates and restructuring the current tariff system in order to maintain the country's industrial and trade development.

A ministry spokesman said Sunday that the Finance Ministry will also take the following measures to streamline the customs affairs:

--Adopting the international uniformed classification of trading goods and strengthening studies on international customs systems to promote international customs cooperation;

--Implementing the countervailing and anti-dumping duties to enhance the country's capability of handling unfair international competition;

--Improving customs administration and enhancing efficiency in collecting import tariffs;

--Accelerating the cultivation, training, management and evaluation of customs personnel and rationalizing their promotions, rewarding and punishment to effectively enhance customs officials' working efficiency and establish strict discipline among them; and

--Continuing the implementation of the plan to cancel import tariff rebations [as received] in five years and pushing for the healthy development of bonded factory system to wipe out corrupt practices under the present system and upgrade domestic industries.

CSO: 4020/313



TAIWAN

VOLUNTARY BAN ON SALMON FISHING IN PACIFIC

OW100331 Taipei CNA in English 0254 GMT 10 Aug 85

[Text] Taipei, 9 Aug (CNA)--To avoid becoming involved in disputes with other nations over the catching of salmon, this nation's fishing boats are from now on prohibited from operating in the area over 39 degree north in the Pacific, the Agricultural Council said Friday.

Salmon, a high-value fish existing mostly in the waters of the Bering Straits in the North Pacific, have been listed by the United States, Japan and the Soviet Union as one of the fishes under their protection.

Besides sharing the fishing quota set among themselves, the three nations are prohibiting other countries from catching salmon in the area.

However, the some 200 Chinese fishing boats operating in the North Pacific to catch cuttelfish have sometimes fished for salmon, which have been welcomed by domestic consumers and have been exported occasionally to other nations.

The United States, the Council said, has protested against this nation's export of salmon recently.

According to the Council, most of this nation's cuttlefishing boats usually operate in waters around New Zealand from January through June, and in the second half of the year, they said to the North Pacific.

CSO: 4020/334

TAIWAN

BRIEFS

EXPORTS TO HONG KONG--The Republic of China exported NT\$45.8 billion worth of goods to Hong Kong in the first 5 months this year or NT\$12.8 billion more than the same period last year, representing an increase of 39 percent, a Central News Agency wire dispatch from Hong Kong reported yesterday. According to the dispatch, the ROC became the fourth largest exporter to the British colony behind Japan, mainland China and the United States. Meanwhile, the ROC imported NT\$9.7 billion worth of goods from Hong Kong from January to May this year or NT\$663 million less than the same period last year, representing a drop of 6 percent. [Text] [Taipei CHINA POST in English 17 Jul 85 p 12 OW]

FOREIGN EXCHANGE POLICY--Taipei, July 19. (CNA)--The ROC Government will not undertake an immediate and complete lift of its controls on foreign exchange, despite its trade surplus, Economics Minister Lee Ta-hai said Friday. Lee made the remarks in response to a question by a foreign delegate attending Captive Nations Week. Lee said that the government has gradually eased control on some foreign exchange. It is not possible to completely lift the restrictions right away because they have long been implemented. Lee also stressed that the Republic of China has welcomed foreign investment, and some restrictions on investment regulation have been lifted. [Text] [Taipei CNA in English 0950 GMT 19 Jul 85 OW]

GROWING ROLE OF TAIWANESE--Chinese born in Taiwan, or from Taiwan, are playing an important role in politics, government, science and business in the mainland. According to an article in the periodical VOICE OF TAIWAN, more than 20,000 Taiwan compatriots are now working on the mainland, of whom more than 1,600 hold posts in party and government units. Of the 2,968 representatives of the National People's Congress, 250 are Taiwanese. There are also 35 Taiwanese in the Chinese People's Political Consultative Conference. The article said more than 2,000 are doing scientific, technological, medical and educational work. Three hundred compatriots are managers in business. [Text] [Beijing CHINA DAILY in English 6 Aug 85 p 1 HK]

CSO: 4020/334

HONG KONG MEDIA ON CHINA

HANGZHOU TO HAVE \$45.8 MILLION TRADE EXHIBITION CENTER

HK090349 Hong Kong SOUTH CHINA MORNING POST in English 9 Aug 85  
p 10

[By Francis Li]

[Text] Zhejiang's provincial officials believe they have found a powerful weapon to keep themselves abreast of other competitors in China's long march into modernization--a kingsize trade exhibition centre.

When completed the U.S.\$45.8 million (about HK\$357.2 million) venture will be capable of attracting foreign investment, and it is hoped, revitalise other cities and boost special economic zones.

The exhibition hall is to be built on a 65,000 sq metre site and will not only provide a venue for displaying the ancient city's many valued products but provide a conduit for attracting an inflow of high technology.

Currently the city has 128 different trades and 4,100 industrial corporations, with many of its products being exported to the U.S. and Europe.

The city is also a dominant supplier of raw silk to world markets.

The first phase of the hall, which will be built on a site of 14,500 sq metres, will be opened in the latter half of 1987 and feature a conference hall, a hotel with 800 beds and an exhibition hall which can house up to 600 people.

Hong Kong's China Resources Company has a 25 perent stake in the costly project.

The vice-director of the Hangzhou Foreign Economic Commission, Mr Chen Daxin, ruled out the possibility that the centre would be used for regular fairs similar to the Canton trade fairs.

Instead, the centre's managers will organise regular product exhibitions and trade conferences.

Mr Chen said Hong Kong and Macao interests already accounted for 60 percent of all foreign investment in the city in the form of 14 joint ventures.

Despite the city's relative remoteness from Hong Kong and Macao, Mr Chen said funds from there amounted to about US\$12 million (about HK\$93.6 million) out of a total of US\$20.38 million (about HK\$160 million) invested so far.

Foreign capital is invested in a wide range of joint ventures, from hotels, cinemas, textile and electrical appliance factories.

Hangzhou last year was ranked among China's 10 cities with the biggest industrial output--exceeding 10 billion yuan.

To compensate for favourable trade conditions like those provided at the special economic zones, Mr Chen said the city has used economic efficiency and good logistical backup.

He said that negotiations on particular items in joint ventures often last for three to four months.

"We will try to offer the most favourable terms of our potential partners," Mr Chen said.

He said that since last September the Beijing Government had authorized the city government to approve small industrial joint ventures not exceeding a total investment of US\$5 million (about HK\$39 million).

The city enjoys unlimited authority in endorsing tourism business ventures in partnership with foreign investors.

Meanwhile, the mayor of Hangzhou, Mr Zhong Boxi, said the city is particularly suitable for the development of an electronic and consumer product industry because of its role as a tourist centre.

Hangzhou's added advantage for industrial joint ventures is its location at the centre of both rail and water transport networks in the southeast region of China, Mr Zhong said.

On telecommunications facilities, he said 13,000 more telephones will be added next year and the number of additional telephones will increase to 80,000 in six years' time--greatly improving domestic communication.

With a direct microwave telephone link to Shanghai, Mr Zhong said long-distance overseas calls from Hangzhou can often be put through in 1-1/1 minutes.

HONG KONG MEDIA ON CHINA

PRC TO FOCUS ON ENERGY, HIGH TECHNOLOGY PROJECTS

HK070509 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English 7 Aug 85 p 5

[By Olivia Sin]

[Text] Chinese authorities have recently detailed a list of 39 types of projects which will have priority in attracting foreign investment.

At the same time, 12 categories of investments will be discouraged by the country, according to informed sources.

The sources told BUSINESS NEWS the priority projects range from the 3xploration of energy and mineral resources to construction materials, medical equipment and food processing techniques.

Production of consumer items such as television sets and the operation of taxi services are among the businesses to be curtailed.

Investments which have short payback periods, high profits and do not involve high technology will also be discouraged.

Traders welcomed the announcement of the list which they said can be used as investment guide.

Observers said the list is in line with China's policy of giving top priority to high-technology projects and resources exploration.

That the list was drafted when China is having foreign exchange difficulties also reflected the authorities' determination to make the best use of limited funds, they suggested.

The sources said the list was recently circulated to government departments in various provinces and officials were told to comply with it in approving projects.

Below is a summary of the 39 categories of project which will be given priority:

--Exploration of offshore oil deposits and newly-announced on-shore oil fields in 10 southern provinces.

--Exploration of coal mines whose output is designated for exports, liquefaction and gasification of coal, and pipelines to transport coal gas.

--Exploration of metal deposits such as iron and copper and the production of iron, aluminium, lead and other metals.

--Production of compound fertilisers and pesticides which are highly effective but are less toxic.

--Production of construction materials like cement, glass, high-class decorative materials and ceramics.

--Exploration and processing of marble and the export of asbestos and other expensive building materials.

--Design and production of large-scale power generators.

--Production of electricity cables and integrated circuits.

--Development of computers with an emphasis on advanced microcomputer models.

--Production of modern telecommunications equipment and advanced type-setting and printing machines using laser technology.

--Construction of offshore oil platforms and the design of heavy trucks.

--Production of antibiotics and advanced ultrasonic medical equipment.

--Technology for extracting proteins from plants and techniques for freezing export-oriented foods.

--Equipment to keep fruits and vegetables fresh and the processing of agricultural produce.

--Deep-sea fishing techniques.

Apart from TV sets, the production of radios and videotape recorders will also be discouraged.

The remaining 11 activities to be curbed will include:

--Rental of vans and taxis and the repair of vehicles and motorcycles.

--Techniques for developing films and the repair of household appliances.

--The operation of shopping arcades.

--Production of drinks, cigarettes and liquors.

--Production of electronic calculators, refrigerators, watches, bicycles, sewing machines, cameras, vehicles and elevators.

CSO: 4020/331

HONG KONG ECONOMIC TRENDS

HONG KONG TRADE OFFICIAL CITED ON EXPANSION OF U.S. TEXTILE CURBS

HK080335 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS supplement) in English 8 Aug 85 pp 1, 3

[Article by Paul Baran]

[Text] A U.S. Customs Service proposal to widen the country-of-origin rules to cover imports of all textiles and textile products threatens a large chunk of local sweater exports made from non-Multi Fibre Arrangement (MFA) fibres.

The acting Director of Trade, Mr Donald Tsang, said yesterday the proposal, published in the U.S. Federal Register on August 2 by the Treasury Department, meant non-MFA sweaters made here from pieces knitted in China would lose their Hong Kong-origin eligibility.

These goods--which are quota-free--would then have to carry a China origin label, a switch the department and manufacturers fear would weaken the perception of quality among U.S. consumers of Hong Kong-made sweaters.

The move could also be a major blow to many manufacturers who switched production from MFA sweaters to non-MFA items after the country-of-origin rules took final effect on April 4.

The origin rules affect only MFA items.

To qualify for a local original label, many firms would be forced to make the sweaters almost entirely of goods made locally, which would push prices up and competitiveness down.

Alternatively, if they chose to retain the China label, prices could fall if consumers felt that label inferior to Hong Kong's.

The department declined to estimate the value of the threatened goods, but about 60 per cent of the five million dozens of non-MFA garments sold to the U.S. each year are sweaters, many of which are made here from China-knitted prices.



Among the non-MFA fibres are ramie, ramie/cotton, linen and silk.

Introduction of the proposal may also force Hong Kong to change its own origin requirements, which now state that a sweater qualifies for a local label if it has been "substantially transformed" in the territory.

"If this rule is going to apply to labelling as well...the sweater will have to carry the Made-in-China label when it enters the U.S.," Mr Tsang said.

Hong Kong's policy would likely change to conform to the U.S. rules, he said, because local manufacturers would be put in a difficult position if the department continued to apply its existing rules.

However, he said nothing could be done until the U.S. finally cleared the air on "precisely what it considers a Hong Kong product as far as sweaters are concerned."

Mr Tsang said there was sure to be some commercial fallout from a labelling switch.

"Made-in-Hong Kong is a reputable commodity in the U.S. market, and a change to the Made-in-China label will have some effect."

The effects of the country-of-origin rules are still being gauged.

But their imposition, which forced manufacturers to stop making sweaters locally from panels knitted in lower-cost China, have cost the industry millions by forcing it to upgrade knitting operations in Hong Kong.

Several firms spent a total of about \$300 million on new Japanese knitting machines, while other companies shifted their product lines towards other products.

Among the biggest shifts in the industry was the move towards making non-MFA sweaters, the sector now threatened by the proposal.

Mr Tsang said the "precise impact" was now being examined by the Trade Department's Legal Consultant in Washington as well as by members of the local industry.

Countries affected by the proposal have until October 1 to comment to the U.S.

Although the timing of the U.S. announcement was a surprise, the move to bring non-MFA items under the rules has been anticipated by the department for some time.

During the department's talks with the U.S. over the country-of-origin rules, said Mr Tsang, "there was clear indication from U.S. Customs that they were unhappy with the arrangement" of having to enforce one set of rules for quota and another for tariff.

Since the new origin rules applied to MFA products for quota purposes, Customs had to apply the old rules for non-MFA products.

Mr Tsang said that while the move might be in line with the new origin rules, "it was still in conflict with uniform and established commercial and trade practices."

CSO: 4020/321

HONG KONG ECONOMIC TRENDS

HONG KONG EDITORIAL SCORES 'RESTRICTIVE' U.S. TEXTILE MEASURES

HK100620 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English 10 Aug 85 p 2

[Editorial: "U.S. Twists Knife in the Textile Wound"1

[Text] It is simply incredible! The U.S. is trying to do it again--slam another restrictive measure on textile exports.

In the midst of the current gloom over the prospects of our exports, the Department of Trade reports that Washington is planning to hit us with a widened application of the controversial country-of-origin rules.

A U.S. Customs Service proposal would broaden the rules to cover all exports made of non multi-fibre arrangement fibres.

The original rules implemented on 4 April included all exports under the MFA--garments made of cotton, wool and man-made fibres.

The proposed rule encompasses knitwear (mostly sweaters) made of other fibres--ramie, ramie/cotton and other blends.

The proposal comes close on the heels of the original country-of-origin rules which have slashed our exports to knitwear at a time when exports of other products are on a rapid downturn.

It also follows the protectionist Jenkins Bill which is going through the legislative process and may be voted on by the American Congress following its August recess.

Only last week the U.S. administration issued its first call for [word indistinct] restraint on exports of category 637, which stands for playsuits.

On Thursday, another call was issued for category shirts and blouses.

When a call is made, the issue of export authorization is suspended pending negotiations. In most cases, calls results in the category being restricted.

So one can see that the U.S. has not allowed grass to grow under its feet. Instead, it has been busy finding every possible way of appeasing the politicians and coddling a textile industry which does not need protection.

For as the retail industry action Trade Coalition is said to have reported, the U.S. textile industry employed more people last year than in 1983. And that most of the publicly-listed textile companies exceeded their five-year profit averages last year.

No estimate has yet been made of the possible damage the new customs proposal will have on our trade. But since it will affect all knits across the board on non-MFA fibres, it is likely to be substantial.

With the protectionist sentiment in the U.S. strong and still spreading, Hong Kong has to prepare for the worst.

It is no longer feasible to hope that the U.S. will have a change of heart by itself. Or even with a gentle prodding from Hong Kong.

Hong Kong has to fight tooth and nail to bring its case to the ears of those in authority.

Luckily, this time the local trade authorities have been informed of the proposal early. But there is need to move fast if we are to bring our protest to the attention of the right officials.

The government needs to draw up its game plan early and enlist the assistance of the private sector.

With fires breaking out in many places simultaneously, there may be call for government officials and industry leaders to get together and draw up a comprehensive plan of action.

Perhaps there is real need now to employ more lobbyists, as was recently suggested. This is something worth examining in the light of the new proposal.

Whatever is decided we need a programme that is strongly coordinated, well thought-out and speedy. We need a powerful defence.

CSO: 4020/333

HONG KONG ECONOMIC TRENDS

DEALERS FACE HEAVY LOSSES AFTER PRC CLAMP ON IMPORTS

HK020357 Hong Kong SOUTH CHINA MORNING POST in English 2 Aug 85 p 1

[Article by Francis Li]

[Text] Chinese imports of cars, vans and lorries through Hong Kong are expected to plunge by more than 80 percent over the next few months.

Worried dealers predict heavy losses thanks to Beijing's crackdown on corruption and new attempts to shore up its foreign currency reserves by stamping out "unscrupulous" imports.

The campaign reached its climax with the dismissal of three top Hainan Island officials.

China's sudden squeeze on vehicle imports has caught small Hong Kong dealers off-guard. Many of them face ruin.

Millions of dollars-worth of cars and goods vans originally bound for China are stockpiled and stranded in local warehouses.

One dealer said he was prepared to drop \$5,000 off the asking price of each of 30 of his new Japanese vans, valued at nearly \$1.5 million.

"We are preparing to lose to up \$5,000 each in order to dispose of them quickly," he said.

"We are confident that we will find buyers though it will take time."

He said dealers like his regularly ordered small numbers of goods vans directly from Japan and then started to look around for clients in China, especially those who needed vehicles urgently.

An estimated 100 dealers had cashed in on China's vehicle import boom by ordering vans and lorries and then looking for clients over the border.

Business peaked around September last year when massive orders placed by Hainan Island virtually emptied stocks of Japan-made vehicles.

The three Hainan officials are accused of the unauthorised import of large number of cars and goods vans for reselling.

Hong Kong dealers said the clampdown probably meant orders for some 10,000 cars and vans by the island authorities would be cancelled.

An official with one of Hong Kong's largest vehicle agents said instructions to cancel outstanding orders for about 1,000 goods vans to Hainan Island began to flow in before the exposure of corruption.

The official, who wanted to remain anonymous, said his company now hoped to sell only 50 vehicles a month to the mainland for the rest of the year.

This compares with about 1,000 vehicles shipped to China each month during the first half of the year, with Hainan Island absorbing more than 70 per-cent.

Last year the company sold an average 150 vehicles a month to China.

He estimated that China had imported about 110,000 vehicles over the past 12 months with nearly 80,000 of them going to Hainan.

"With that many vehicles being imported by Hainan, it is logical to suggest that China will take some time to digest them," he said.

"We anticipate a drop of at least 80 percent in business for the rest of the year but we don't think this will last long because of a genuine demand in the market."

The cancellations constitute breaches of contract, but the official doubted whether big agents would raise the question of compensation which would hurt further business.

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HONG KONG ECONOMIC TRENDS

REVISED TRADE FIGURES FOR FIRST 5 MONTHS OF 1984 PUBLISHED

HK050455 Hong Kong SOUTH CHINA MORNING POST (BUSINESS NEWS Supplement) in English 5 Aug 85 p 1

[Article by Paul Baran]

[Text] Hong Kong's revised export figures for the first five months of the year show domestic exports in May fell nine per cent against a year earlier--one per cent more than the Government's preliminary figures.

May's re-export figures were also revised. Census and Statistics Department figures released yesterday show the previously reported rise of 40 per cent has been trimmed to 37 per cent.

The domestic exports figures conformed three straight months of declines.

Imports during May rose six per cent by volume, the figures show.

Prices of domestic exports and re-exports rose one and two per cent, respectively, against the same month last year.

Prices of total exports rose two per cent, but import prices fell four per cent, resulting in a six per cent rise in the trade index.

The trade index is a ratio of the total export price index to the import price index.

The May figures also show that almost every domestic export category suffered drops in volume against the same month last year, with travel goods and handbags registering a 30 per cent decline.

The textile sector was particularly hard hit, illustrating the effects of rising protectionism in several of the territory's markets.

The volume of textile yarn and thread and textile madeups and related articles fell 28 and 20 per cent respectively while textile fabrics and clothing fell 15 per cent each.

Declines were also seen in radio exports and electronic components, which each fell 22 per cent, and footwear and metal products, which each fell eight per cent.

Gains, however, were recorded in domestic exports of watches, which rose 11 per cent, and metal ores and scrap, which climbed seven per cent.

In the year to May, the figures show domestic exports dropped five per cent, while re-exports, fuelled by rising demand in China, grew 39 per cent against the same period last year, the figures show.

Overall trade, comprising exports and re-exports, grew 11 per cent.

Imports during the first five months rose 10 per cent in volume, while the prices of domestic exports and re-exports rose three and four per cent, respectively. Import prices declined two per cent, the department said.

During the past 12-month period ended May, domestic exports and re-exports grew five and 33 per cent, respectively, for a 15 per cent over all increase in total exports.

Import volume during the period, however, rose 11 per cent, while prices of domestic exports, re-exports and imports rose eight per cent, nine per cent and four per cent, respectively.

Some major imported foodstuffs fell in volume in May against the corresponding month last year, the department said, led by soyabean oil, peanut oil, lard, sugar, vegetables, rice, fish and fish preparations and pigs.

Import volume also rose for consumer goods, [word indistinct] passenger cars, cameras, flashlight equipment, radios, television sets, record players, records, tape recorders and amplifiers, household electrical appliances and footwear.

Drops in import volume were registered in alcoholic beverages, miscellaneous madeup articles of textile materials, tobacco, clothing and watches.

Import volume of raw materials and semi-manufactures also rose during the month against a year earlier.

Among the leaders were wool and other animal hairs, iron and steel, base metals excluding iron and steel, wood, lumber and cork and watches and movements.

CSO: 4020/321



HONG KONG ECONOMIC TRENDS

HONG KONG INFRASTRUCTURE STABILIZING FACTOR

OW061925 Beijing XINHUA in English 1852 GMT 6 Aug 85

[Text] Hong Kong, 6 Aug (XINHUA)--The existing expansion of Hong Kong's infrastructure projects will be a stabilizing factor to Hong Kong's economic growth in the coming few years against the backdrop of the not-too-bright prospect of the U.S. economy and its adverse effect on the world market, the latest issue of HONG KONG MARKET reported.

The magazine, run by the China Resources Company, said among the development projects recently announced by the Hong Kong Government, the most catching one is the construction of the second cross-harbour tunnel. The project, estimated to cost about 386-million U.S. dollars, is expected to start early next year and to be completed in mid-1989.

Among those to be commenced this fiscal year are a light rail system linking Tuen Mun to Yuen Long and some road networks in New Territory and Hong Kong Island, the cost of which totals about 747.4 million U.S. dollars.

In addition, the reclamation of about 40 hectares from the sea, a breakwater project and the construction of a wharf in the North Point are under way. Another 811.8 million U.S. dollars will also be spent in the coming 10 years to expand the eastern part of Hong Kong Island, including construction of hospitals and housing estates.

As these projects are all on large scale and will stretch over a considerable period of time, the report said, they will serve as a powerful buttress, in addition to foreign trade, to sustain the economic growth of Hong Kong.

CSO: 4020/321

HONG KONG ECONOMIC TRENDS

HONG KONG COMPUTER USE, INVESTMENT INCREASES

OW091922 Beijing XINHUA in English 1846 GMT 9 Aug 85

[Text] Hong Kong, 9 Aug (XINHUA)--Hong Kong spent 2.1 billion Hong Kong dollars (about 270.6 million U.S. dollars) last year on computer equipment--10 times the figure of five years ago, according to a Hong Kong Government official.

Adolf Hsu, acting secretary for administrative services and information, said computer technology was now widely applied in Hong Kong in newspaper typesetting, underground railways, telephone exchanges, banking and the civil service.

"More than 90 percent of government departments are using computer-based automatic office equipment," he said at the opening ceremony of the Wang Fair '85, sponsored by the Wang Pacific Computer Company, this week.

Hsu said the increase of computer investment in recent years matched the rapid growth and increasing sophistication of Hong Kong's economy and communications systems.

Hong Kong was also engaged in computer production. "Our electronics industry, which includes the manufacture of computer equipment and components, is our biggest export earner after textiles and garments. It provides employment for 100,000 workers," he said.

The Hong Kong authorities fully recognized the challenge of a computerised society, and the importance of preparing the future generation to meet this challenge. A scheme was now under way to install microcomputers in all public-sector secondary schools.

The Wang Pacific Company had recently transferred its Asian area head office from Hawaii to Hong Kong. This move clearly demonstrated the company's confidence in Hong Kong's future.

CSO: 4020/333

END